

# Eric Sturdza Management Company S.A.

## Sustainability risk Policy

Thursday, June 8, 2023

### Document History

Version	Date	Description	Author	Reviewer	Approval
1.00	08/1/22	Initial	Risk Officer	CO Risk Department	Executive Committee
1.01	11/1/22	Update	Risk Officer	CO Risk Department	Executive Committee
1.10	2/25/23	Annual Update	Risk Officer	CO Risk Department	Executive Committee

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## Glossary

Abbreviation	Definition
AIFs / UCITS	An Alternative Investment Fund / An Undertaking for Collective Investment in Transferable Securities
AIFs / UCITS	An Alternative Investment Fund / An Undertaking for Collective Investment in Transferable Securities
ESMC or the Company or the Management Company or ManCo	Eric Sturdza Management Company S.A.
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
Board of Directors	The Board of Directors
Conducting Officer or CO	A Conducting Officer
CSSF	Commission de Surveillance du Secteur Financier
ESG	Environmental, Social, and Governance Criteria
ExCo	Executive Committee where the Conductive Officers of the Management Company attend
KRI	Key Risk Indicator
PPM or Private Placement Memorandum	Private placement memorandum of the AIFs
PRMF	The Permanent Risk Management Function
RI	Responsible investing
SFDR	Regulation (EU) 2019/2088 of the European Parliament and of the Committee of 27 November 2019 on sustainability-related disclosure
UCITS Law	Luxembourg Law of 17 December 2010 relating to undertakings for collective investment as amended
UCITS Regulation	Directive 2009/65/EC of the European Parliament and of the Committee of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities

## 1 General section for introduction and scope

This document is owned by the Eric Sturdza Management Company, public limited company (société anonyme) incorporated under the laws of the Grand Duchy of Luxembourg and licensed by the financial supervisory authority of the Grand Duchy of Luxembourg (Commission de Surveillance du Secteur Financier or "CSSF") as Management Company chapter 15 of the 2010 Law and as Alternative Investment Fund Manager within the meaning of Chapter 2 of the Luxembourg law dated 12 July 2013 on alternative investment fund managers (the "AIFM Law") and also authorized under Article 125-2 of the Luxembourg law of 17 December 2010 on undertakings for collective investment.

The document outlines the requirements introduced by the regulation (EU) 2019/2088<sup>1</sup> of the European Parliament and of the Committee of 27 November 2019 on sustainability-related disclosures in the financial services sector.

the Luxembourg UCITS management company ("UCITS ManCo")/AIFM is responsible for the Article 10 SFDR website disclosures, irrespective of whether portfolio management has been delegated to a portfolio manager. The UCITS ManCo /AIFM will therefore have to ensure that all relevant disclosures are made on its website or on the website where fund-related documentation is usually made available to investors (such as the financial product's own website, the website of its initiator or that of the portfolio manager).

The Policy applies to all assets managed by majority-owned ESMC's business and all businesses under ESMC's management control. It also applies to every asset category and to all assets under management. We strive to implement the policy consistently, but deviations in relation to the policy's scope may apply with respect to mandates.

### 1. Fiduciary investors

These investors may have their own specific requirements and criteria.

### 2. Assets managed by external asset managers

Although ESMC expects external managers to implement the key principles of their own policy for the assets that they manage and to monitor the implementation, exceptions may arise. The document should be published on their website and inform the Management Company in the event of major amendments of the policy.

### 3. Assets managed by ESMC

ESMC applies the key principles of this policy for the assets under its management and to monitor the implementation, however, exceptions may arise.

## 2 Governance

We have a governance structure in place in which multi-disciplinary expertise is embedded and mandated to oversee, drive, and implement RI regulatory requirements.

We ensure the relevant people are involved in decision-making, that recommendations are shared and decisions are efficiently implemented. The ESMC Management Board provides strategic direction and the

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<sup>1</sup> <https://eur-lex.europa.eu/legal-content/fr/ALL/?uri=CELEX%3A32019R2088>

### Sustainability risk Policy

PRMF and Portfolio Management functions oversee the implementation of the Framework in investment-related processes.

In this governance structure, the ESG Committee and the other Committee have an important role in making recommendations and decisions related to our policies and the engagement process.

## 2.1 Typology of the funds under management

There are three types of responsible investing strategies – ESG-integrated, sustainable and impact – to cater to a variety of client needs across a broad range of asset classes. For more information, see the Responsible Investing page of the relevant manager. We have used this categorization as a starting point for the SFDR classification of our funds and mandates, which reflects the level of transparency required. The classification can be found in the prospectus of the fund.

The more sustainable a fund or mandate is, the more information that will need to be disclosed. The most relevant distinctions between classifications, a strategy will be labelled either Article 6, 8 or 9 of the SFDR:

1. [Article 6](#) covers funds which do not integrate any kind of sustainability into the investment process and could include stocks currently excluded by ESG funds such as tobacco companies or thermal coal producers. While these will be allowed to continue to be sold in the EU, provided they are clearly labelled as non-sustainable, they may face considerable marketing difficulties when matched against more sustainable funds.
2. [Article 8](#), also known as ‘environmental and socially promoting’, applies “... where a financial product promotes, among other characteristics, environmental or social characteristics, or a combination of those characteristics, provided that the companies in which the investments are made follow good governance practices.”
3. [Article 9](#), also known as ‘products targeting sustainable investments’, covers products targeting bespoke sustainable investments and applies “... where a financial product has sustainable investment as its objective and an index has been designated as a reference benchmark.”

## 2.2 Governance of responsible investing

Our governance structure ensures that we continue to optimise long-term risk-adjusted returns for our clients, while staying focused on having a positive impact on society at large.

ESMC’s approach to responsible investing is organised in a structured way. We ensure the relevant people are involved in decision-making, that recommendations are shared and decisions are efficiently implemented.

### 1. [The Investment Manager](#)

The investment teams integrate ESG factors into the investment process and to strengthen and oversee the active ownership activities. Its members also provide advice and give their expert opinion on RI-related matters in the global context of the investment practices.

The team drives voting and engagement activities and ESG integration as well as thought leadership on related RI topics on behalf of the funds. In the company’s organisational structure, they are located at the core of the investment teams, reporting directly to the senior management of the asset manager and to ESMC.

## 2. The ESG Committee

The ESG Committee plays a key role in the active approach as share and debt holders. Its role is to monitor engagements, assess controversies and provide recommendations to the ESG Committee on the appropriate steps to take. The committee also monitors progress made by companies who are in the process of remedying past controversies. Acting in an advisory capacity, the Committee meets on a regular basis to discuss engagement activities and updates, and determines the next steps required to achieve the engagement objectives at individual company level.

The ESG Committee is chaired by an ESG member and comprises senior representatives of various business segments such as risk management, product management and portfolio management. It meets at least four times a year and ad hoc if needed, and advises funds and Management Company board on the implementation of the responsible investing framework. The Committee's objectives are to advise or decide on policies and investment initiatives and to make recommendations regarding the Exclusion List.

The ESG Committee has been mandated to assess whether or not an issuer is in violation of the norms-based RI criteria, and if engagement will help to address the violation. This entails assessing whether a violation of norms-based RI criteria has occurred, based on a quarterly screening of our investment universe for controversial activity and controversial conduct.

The ESG Committee validates the assessment of violations where engagement is not (or no longer) deemed feasible, and decides whether to make a recommendation to the Board to place the country, sector or company on the Exclusion List.

## 3 Taxonomy Regulation and delegated acts<sup>2</sup>

The Taxonomy Regulation was published in the Official Journal of the European Union on 22 June 2020 and entered into force on 12 July 2020. The EU taxonomy is a classification system, establishing a list of environmentally sustainable economic activities. It could play an important role helping the EU scale up sustainable investment and implement the European green deal. The EU taxonomy would provide companies, investors and policymakers with appropriate definitions for which economic activities can be considered environmentally sustainable.

The Taxonomy Regulation establishes six environmental objectives

- Climate change mitigation
- Climate change adaptation
- The sustainable use and protection of water and marine resources
- The transition to a circular economy
- Pollution prevention and control
- The protection and restoration of biodiversity and ecosystems

The Taxonomy Regulation applies to fund managers of investments funds that have been classified as article 8 and 9. The prospectus and PPM are amended on a regular basis to comply with the regulation and the requirements.

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<sup>2</sup>[https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities\\_en](https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities_en)

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On October 22 2021, ESMA issued the final report on the draft regulatory technical standard (RTS<sup>3</sup>) (level 2) with regard to the content and presentation of disclosures pursuant to Articles 8(4), 9(6) and 11(5) of the SFDR. This sets out the detail of the EU Taxonomy-related pre-contractual Fund disclosures and periodic reporting which applies from January 2023.

## 4 Responsible investing implementation

### 4.1 Implementation of the principles by an external asset manager

The Luxembourg UCITS management company ("UCITS ManCo")/AIFM is responsible for the Article 10 SFDR website disclosures, irrespective of whether portfolio management has been delegated to a portfolio manager. The UCITS ManCo /AIFM will therefore have to ensure that all relevant disclosures are made on its website or on the website where fund-related documentation is usually made available to investors (such as the financial product's own website, the website of its initiator or that of the portfolio manager).

In the case where the portfolio management is delegated, the policies<sup>4</sup> of the investment manager are applicable and should be available on the IM's website in a dedicated menu related to ESG approach. ESMC ensures compliance of the principle through their oversight process.

- VIA AM

<https://www.via-am.com/en/esg>

- E.I. Sturdza Strategic Management Limited

<https://ericsturdza.com/about-us/environmental-social-governance-esg/>

### 4.2 Implementation of the principles by ESMC as manager

This section outlines the mandatory minimum requirements for all assets managed by ESMC.

A key part of our approach to Responsible Investing is, where possible and feasible, we aim to mitigate the negative impacts of our investments on the sustainability factors. These factors could be 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 investment.

These negative impacts are also called adverse impacts, with the most significant adverse impacts being referred to as principal adverse impacts. These principal adverse impacts can occur in different areas, such as, related to environmental, social and employee matters, human rights, corruption and bribery matters. The exact application can differ between asset classes and strategies.

We continuously seek additional ways to mitigate adverse impacts in a robust and meaningful way and will include additional adverse impacts in our Responsible Investment approach in line with the SFDR requirements.

Sustainability risks are integrated into internal processes, systems and controls as defined by The EU Sustainable Finance Disclosure Regulation(EU) 2019/2088 of the European Parliament and of the Committee of 27 November 2019 on sustainability-related disclosures in the financial services sector ("SFDR") and the Commission Delegated Directive (EU) 2021/1270 amending Directive 2010/43/EU.

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<sup>3</sup>[https://www.eiopa.europa.eu/sites/default/files/joint-committee/jc\\_2021-50-final-report-on-taxonomy-related-product-disclosure-rts.pdf](https://www.eiopa.europa.eu/sites/default/files/joint-committee/jc_2021-50-final-report-on-taxonomy-related-product-disclosure-rts.pdf)

<sup>4</sup> The policies are not limited to the ESG principles but all Responsible investing policy documents to strengthen its approach to responsible investment.

## 4.2.1 Identification of the factors

### 4.2.1.1 Physical Risks

Physical risks include all discomfort related to the localisation of the investment. A physical risk may result from the involvement of physical parameters related to the climate or geology.

Physical risks can be classified into two categories:

- Short-term events: A extreme situation which impact locally the economic activity (e.g.: heatwaves, floods and forest fires)
- Long-term changes: a direct modification in the climate and environmental conditions which requires an adaptation to support these risks (e.g.: rainfall frequency and volume, rising sea levels) or indirect results, such as a collapse of the supply chain.

### 4.2.1.2 Transition Risks

Transition risks are business-related risks that follow societal and economic shifts towards a low-carbon and more climate-friendly future. These risks can include:

- Policy and legal changes: it's the risk that a change in laws and regulations will materially impact an investment, sector or market. Two policy categories should exist in the objective of the target investment:
  - o Limit actions contributing to adverse effects on climate change
  - o Promote adaptation to climate changeMonitoring should take into consideration the financial impact by adjusted forecasting cash flow considered all additional cost to meet the full adaption with regulatory duties.

Stranded Assets: The stranding risk relates to the risk of loss of an asset arising from the asset becoming non-competitive by the year 2050 or before owing to exceeding CO2 emissions and high final energy consumption per square meter. The stranding risk analysis identifies the probability of meeting the called "<2°" target by 2050.

- Technological and innovating changes: it's the risk a change resulting from the R&D will materially modify the valuation and the ESG profile of an investment.
  - o Identify the potential of the company to reduce the cost or become market leader on a technology via the innovation to rerating the ESG profile.
- Reputational changes: loss of stakeholder trust in a company's competence or integrity. These risks could be identified by the investment's engagement into:
  - o Incorporate financially material ESG factors in the investment decision making process, consistent with the time-frame of the obligation
  - o Understand/incorporate in the decision making the sustainability preferences of the beneficiaries/clients, whether their preferences are financially material or not.
  - o Be active owners, encouraging high standards of ESG.
  - o Support the stability and resilience of the financial system
  - o Disclose the Investment approach in a clear and understandable manner, including how preferences are incorporated into the scheme's investment approach.

Additional sources of data could be used to mitigate the ESG criteria and to identify the Transitional risk embedded.

## 4.2.2 Monitoring of the sustainability risk



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The Management Company monitors such sustainability risks independently and by ensuring that delegates are required to notify the Management Company promptly should the investment objectives, strategy, procedures or policies of the relevant UCITS change.

This allows the Management Company to monitor the UCITS and ensure that it is following appropriate sustainability risk management policies and procedures, should the changes to the legal documents of the relevant UCITS make it necessary to consider such risks in order to manage such UCITS in accordance with the best interests of their investors and the law.

Delegates are also required to provide the Management Company with management information on a regular basis, insofar as this relates to sustainability risk management, in order to enable the Management Company to undertake effective oversight of the delegation

The monitoring and controls of the ESG risks are based on the data and reporting available by the Morningstar Sustainability system which monitors, at the investment and at the fund level, the adequacy in the matter of sustainability. The system is mainly based on a scoring and rating system which could be used by the fund to develop some quantitative and qualitative constraints which are clearly disclosed in the prospectus and additional policies which are available on the Investment Manager's website in a dedicated section related to ESG principles. These sustainability risks include (but are not limited to) the following:

Environmental	Social	Governance
Climate change	Human rights violations	Lack of diversity at board or governing body level
Carbon emissions	Human trafficking	Inadequate external or internal audit
Water pollution	Modern slavery / forced labor	Infringement or curtailment of rights of (minority) shareholders
Harm to biodiversity	Breaches of employee rights / labor rights	Bribery and corruption
Deforestation	Child labor	Lack of scrutiny of executive pay
Energy inefficiency	Discrimination	Poor safeguards on personal data / IT security
Waste management practices	Restrictions on or abuse of the rights of consumers	Discriminatory employment practices
Water scarcity	Restricted access to clean water, to a reliable food supply, and/or to a sanitary living environment	Health and safety concerns
Rising sea levels / coastal flooding		Poor sustainability practices in the supply chain
Wildfires / bushfires		

Sustainability risks are often related to and may have an impact on other risk categories, or may be a factor to their materiality. The sustainability risks are as follows:

- Credit risk/counterparty default risk: The business model of an issuer of an investment grade bond may be severely damaged by transition risk (such as an unexpected CO2 Tax). The consideration ESG risks are at all stages of the credit-granting and/or investment process and monitoring.

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- Market risk: An investee company that does not demonstrate management for transition towards a sustainable economy may lose value due to a decline in market sentiment (reflecting transition cost expectations). The monitoring on an on-going basis may take into consideration the effect of sustainability factors on the market risk positions and future investments.
- Liquidity risk: If climate-related and environmental risks materialize (e.g. natural disaster) we may experience substantial net cash outflows or depletion of liquidity buffer and/or a fund liquidity mismatch related to the financially material impact of physical risks on our operations in one or more relevant markets.
- Operational risk: events like extreme weather conditions and epidemic diseases may impact our operations in one or more regions. It's considered how climate/social-related event could have an adverse impact on business continuity and the extent to which the nature of organisations activities could increase reputational and/or liability risk
- Reputational risk: A key objective of the Sustainable Finance Framework is to counter greenwashing (i.e. marketing a product as sustainable while this is not justified).
- Data availability risk: sustainability risk integration underscores the need for reliable and high quality ESG information. ESMA has acknowledged that there are operational challenges involved with 'getting reliable data on sustainability risks and factors. The ECB has highlighted this as an impediment to the consistent use of ESG data by market participants and stresses that unreliable ESG data and ratings limit users in their capacity to conduct granular financial risk analyses.

### 4.2.3 Stress tests

Regular stress testing (at least quarterly) with the results documented and, where the tests indicate the possibility of significantly greater losses to a portfolio than anticipated, the Board will be immediately advised.

Stress tests should measure any potential major depreciation of the UCITS value as a result of unexpected changes in the relevant market conditions resulting of a modification of the sustainability factors.

The parameters to be stress tested are selected on the basis of the investment strategy of each UCITS and their main drivers of risk.

#### Expected Loss

Is the loss expected by the Fund or an investee company that could incur in the event sustainability risks are materialised. Expected loss is estimated based on investees' ESG score, their exposure and losses they could experience should sustainability risks (identified by Sustainalytics, internal research or research from other third parties) materialise. The losses allocated to ESG scores is based both on losses experienced by companies (e.g. Vale, BP etc), their likelihood of occurrence and internal judgement. Both the likelihood and internal judgment parameters could be adjusted over time.

#### Sustainability Risk Score

This score is based on the weighted average of all holdings (including cash) and their exposures and ESG Risk Score provided by Sustainalytics. Sustainability Risk Score is graded into 'Negligible', 'Low', 'Medium', 'High' or 'Severe' depending on their score.

### 4.2.4 Disclosure

#### 4.2.4.1 Sustainable Finance Disclosure Regulation ("SFDR")

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In relation the application of Regulation (EU) 2019/2088 on Sustainable Finance Disclosure Regulation ("SFDR") to UCITS, disclosures required under Article 6 (3) (g) SFDR and, if applicable, Articles 7, 8 and/or 9 SFDR are disclosed in UCITS prospectus. The criteria used during the assessment will be as laid out in the EU SFDR Regulatory Technical Standards (RTS) and amended local and European regulations.

Principal Adverse Impacts (PAIs) arrangements under Article 4 of SFDR, refers to negative indicators that are taken into consideration and will most likely be narrative based at a product level. Examples of what you might expect to see are things like carbon emissions, fossil fuel exposure, violations of UNGC principles, gender pay gap and board diversity. These are intentions by the fund manager to consider these types of issues in their investments.

For those Funds not considering principal adverse impacts of investment decisions on sustainability factors, the RTS set out the statement and explanation that must be published on those financial market participants' websites.

#### 4.2.4.2 EU taxonomy for sustainable activities

Article 8 of the Taxonomy Regulation<sup>5</sup> aims to increase transparency in the market and prevent greenwashing by providing investors with information on the environmental performance of the assets and economic activities of Issuers<sup>6</sup> subject to the NFRD<sup>7</sup>.

The entry into force of the Taxonomy Complementary Climate Delegated Act<sup>3</sup> on 1 January 2023, which will consider fossil gas and nuclear energy activities as being taxonomy-aligned if they meet certain conditions could be if meet the list of criteria, excluded from the binding.

#### 4.2.5 Transparent reporting

Transparent reporting is the fourth pillar of our responsible investing approach. We regularly report on our Sustainable and Impact strategies in the context of ESG factors, such as carbon footprints and intensity. We update clients on all our RI-related activities and results via our annual Responsible Investing Report. ESMC follows the Principles for Responsible Investment (PRI).

In addition, we report transparently on both the entity level and the financial product level in accordance with the requirements of SFDR, and will add additional disclosures in line with the requirements that are being phased in during the period 2021-2023. This is reflected in ESMC's pre-contractual disclosures, website disclosures, and periodic disclosures.

Furthermore, ESMC seeks to ensure that companies recognize the importance of transparent disclosures as part of our engagement approach. They are accountable to their stakeholders and must show how they are addressing ESG issues. They also need to be transparent on the policies and processes they have in place to make their business more sustainable.

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<sup>5</sup> Regulation (EU) 2020/852 of the European Parliament and of the Committee of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088

<sup>6</sup> Entities whose securities are admitted to trading on a regulated market, for which Luxembourg is the home Member State, exceeding 500 employees, total assets of EUR 20 million and/or a net turnover of EUR 40 million

<sup>7</sup> Directive 2014/95/EU of the European Parliament and of the Committee of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups

## 5 Policy review

Any material update to the Policy will be reflected in an updated version of the Policy, which in turn will be communicated to and approved by the senior management.

The Management Function aims to ensure that any on-going developments and improvements in responsible investments are included in the Risk Management Policy and any material change is communicated to the senior management.

## 6 Appendix: List of the funds

Please find below the list of the funds which applied the current policy where ESMC is appointed as Portfolio Manager:

- NULL