



# Opportunity Fund Management

## Stewardship Policy

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**Document History**

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1	8/1/22	Initial	Risk Officer	CO Risk Department	Executive Committee
2	11/1/22	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
OFM or the Company or the Management Company or ManCo	Opportunity Fund Management
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 Council 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 Council 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 Opportunity Fund Management, 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 discloses the requirements introduced by the regulation (EU) 2019/2088<sup>1</sup> of the European Parliament and of the council 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 OFM's business and all businesses under OFM'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 regards to mandates.

### 1. Fiduciary investors

These investors may have their own specific requirements and criteria.

### 2. Assets managed by external asset managers

Although OFM 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 OFM

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

## 2 The long-term approach

To ensure long-term performance for shareholders, OFM expects investee companies to act in a responsible way to all stakeholders. This includes recognition of the impact of business decisions on the environment, as well as recognition of the impact of their business decisions on social and human rights issues in the regions in which they do business and supply chains they utilize.

In addition, OFM encourages companies to adhere to internationally accepted sustainability standards beyond complying with local legal requirements as outlined in the Paris Climate Agreement, the UN Guiding Principles on Business and Human Rights, the UN Global Compact, the OECD Guidelines for Multinational Enterprises and the

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



international labor standards of the International Labor Organization which permit to target the Sustainable Development.

OFM embeds these standards by encouraging them to adopt standards, policies and management processes with ESG considerations. Companies should also indicate which sustainability aspects are most material to their business, and how these aspects are aligned with the strategy and accompanying objectives and targets.

### **Qualities assessment**

In a fast-changing, globalizing world, information that is material to investor decision-making is becoming increasingly diverse and dynamic. Long-term success in managing a business in today's complex economic, environmental and social landscape is increasingly dependent on factors not reflected in financial statements. The same is true for investors when assessing a company's present and future valuation and ability to understand its risks and opportunities. Material issues such as climate change, biodiversity loss, supply chain management, human capital and human rights, and environmental management systems, represent a class of variables that can have a direct impact on short and long-term value creation and destruction.

OFM recognizes that ESG information, when combined with financial information, can provide valuable insight into the overall quality of management, a critical variable in the appraisal of the firm's financial prospects.

Therefore, we encourage our investee companies to report on material ESG matters to ensure that the business creates and sustains value. Companies are encouraged to combine all material information (both financial and ESG) in a format that serves their stakeholders. When identifying ESG risks and opportunities that could potentially affect the business, investee companies are encouraged to look across their entire value chain. To create consistency and comparability, we promote the use of reporting frameworks such as those presented by the Taskforce on Climate-related Financial Disclosures (TCFD).

### **Sustainability consideration in voting**

OFM uses its vote to voice concerns regarding sustainability and to hold the board accountable in the absence of proper oversight and management of ESG risks and opportunities. Therefore, we may vote against the approval of the accounts and reports, the remuneration proposal, the board chair or incumbent directors if there is a lack of:

1. Disclosure on material ESG factors
2. Disclosure on GHG emissions reduction targets aligned with a 1.5°C pathway
3. Proactive and explicit ESG board oversight
4. Board gender diversity
5. Compliance with our norms-based RI criteria
6. Stakeholder-aligned remuneration that incorporates ESG performance metrics

### **Climate effort in voting**

Global warming is causing far-reaching change. If we do not take swift action, these could have irreversible consequences for ecosystems, agriculture, water resources, human health and security. The risks posed by climate change are systemic and portfolio wide. To protect our societies and the value of our portfolio, we intend to use our votes, alongside engagement, to flag clear expectations of investee companies to take swift action on climate. As such, we will hold boards accountable for those that have failed to set net zero emissions targets in line with limiting global warming to 1.5°Celsius over preindustrial levels by voting against their re-election. We may also vote against the remuneration policy and report cases where the company has not incorporated climate change performance elements in the executive remuneration scheme. If companies fail to report according to the TCFD recommendations, we may consider voting against the annual accounts and reports.

### **Constructive engagement**

To maximize the effectiveness of the voting, we monitor engagements and keep track of how responsive companies are to our engagement questions and how well companies are progressing on the identified change objectives. OFM may decide to vote against routine items as a form of escalation when engagement response or progress is lacking. Further, OFM may consider filing or co-filing a shareholder resolution to flag inaction and accelerate progress on ESG topics.

### 3 Managing conflicts of interest

OFM manages assets for the accounts of investors. We have set up a proxy voting committee which is tasked with voting on investors' assets. If, for whatever reason, in the future, OFM may cast different votes on a single voting issue we will maintain strict information barriers between the relevant asset owners. By doing so it will prevent any conflicts of interest and allow us to serve the best interests of all our investors.

#### The policies

OFM has a policy and framework to manage conflicts of interest. Conflicts of interest could arise when executing stewardship activities. Conflicts in relation to our stewardship responsibilities are covered by our Conflict-of-interest procedure and by our policy. An outline of OFM conflict of interest procedure is published on OFM website. Several conflicts of interest could arise related to OFM stewardship activities. Examples of these potential conflicts of interest are:

1. A company that is selected for engagement is related to one of our (prospective) investors.
2. OFM has voting rights in a company that is related to one of our (prospective) investors.
3. A company that is selected for engagement or is related to our parent company or related subsidiaries.
4. OFM has voting rights in a company that is related to our parent company or related subsidiaries.
5. Investors have differences in engagement preferences.

In these instances, OFM will execute its voting and engagement policy, as normal, on behalf of our ultimate investors following our standard voting policy and engagement guidelines. In case a business relationship might threaten the objectivity or the nature of stewardship activities, OFM compliance department is consulted. If, after consultation with OFM compliance department, voting and engagement activities are to be pursued, different stakeholders including the OFM Executive Committee, OFM Board Members and Board members of the fund are informed.

#### Ethical principles

Several other aspects of ethical conduct are relevant in relation to our stewardship activities. Stewardship activities are exercised with the aim of influencing company behavior; they are not intended to obtain non-public information. In case material non-public information is obtained through stewardship activity, OFM's compliance department is informed, and a Chinese wall is installed for insiders. Stewardship professionals that are considered insiders are subject to a Chinese wall until public dissemination of the material information. During the application of the Chinese wall, stewardship professionals are not allowed to act upon or share the non-public material information. With this approach OFM considers its stewardship responsibilities and acts in the best interest of investors.

### 4 Exclusion Approach

OFM discloses its exclusion through the RI Policy on its website. Our policy applies to those companies that are involved in the production of, or trade in, tobacco, unsustainably sourced palm oil, controversial weapons, such as cluster munitions and anti-personnel mines, and certain fossil fuels. The policy also applies to companies that engage in controversial behavior by structurally and severely breaching the UN Global Compact or the OECD Guidelines for Multinational Enterprises.

If a breach of internationally accepted codes of conduct is detected at the time that OFM is invested in a company, and if we believe that the company is able to eliminate and remediate the given breach, we initiate an enhanced engagement. If an enhanced engagement does not show desired changes regarding the breach after a predetermined period, the engagement will be escalated, potentially leading to the exclusion of the company from OFM's investable universe. For Sustainable Funds, more extended limitations are applied.

## 5 Voting policy

As a shareholder is co-owner of many companies and has a right to vote on shareholder meetings for those companies. We use our voting rights with the aim of influencing the company's corporate governance and other relevant investment-related decisions in the best interest of our investors. In line with this, the Shareholder Rights Directive II (SRD II) – an EU directive – sets out to strengthen the position of shareholders to ensure that decisions are made for the long-term stability of a company.

The exercise of ownership rights by shareholders should therefore be facilitated, including giving shareholders timely and adequate notice of all matters proposed for shareholder vote. At the same time, OFM recognizes that shareholders should act in a responsible way that is aligned with the objective of long-term value creation for all stakeholders. OFM analyses and, wherever feasible, influences environmental, social and governance risks and opportunities at investee companies for the benefit of investors.

This Voting Policy aims to ensure that the interests of the investors are protected and promoted. Based on this proposition, it will support those resolutions that will:

- Enhance climate-related risk management and reporting,
- Promote the underlying companies' good corporate governance,
- Enhance disclosures on sustainability and environmental factors,
- Promote the fair treatment of shareholders,
- Make clear board of directors' responsibilities, and
- Improve transparency.

By extension, the investee companies respect the below principles:

1. All shareholders should be given the opportunity to participate effectively, and on an informed basis, in shareholder meetings. The exercise of ownership rights by all shareholders should be facilitated, including giving shareholders timely and adequate notice of all matters proposed for a shareholder vote.
2. Investee companies should maintain transparency in their organization and decision-making procedures, business model, strategy and risk oversight and disclose information necessary to enable shareholders to make an informed decision on voting issues and on whether to buy, hold, or sell a security issued by the company.
3. Investee companies are expected to comply with generally accepted corporate governance best practices as well as the corporate governance standards that are applicable in the country of domicile.
4. Investee company management should always be accountable to shareholders and stakeholders. Both management / executive directors and supervisory board / non-executive directors should base their decisions on the long-term interests of the company, its shareholders and its stakeholders.
5. Merger and acquisition proposals should be considered in the interest of enhancing long-term shareholder value.
6. To ensure long-term performance for the shareholders, investee companies should act responsibly to all stakeholders. This includes recognition of the impact of business decisions on the environment, as well as recognition of the – positive and negative – impact of their business decisions on social and human rights issues in the regions in which they operate.
7. The interests of management should be aligned with the long-term interests of the company and its shareholders, also when it comes to executive compensation. To ensure alignment of executive and shareholder interests, executive compensation should incentivize long-term performance and be adequately matched with financial and nonfinancial KPIs



Specific items could require more scrutiny and frequent votes against the recommendation if the proposal is seen as not addressing the ESG consideration. Consequently, it could create a discrepancy in the objective to enhance the ESG matters and the creation of value. These proposals are divided into seven key themes:

- Boards and directors
- Executive remuneration and benefits
- Audits and annual reports
- Capital structure, asset sales, M&A and other special transactions
- Proposed changes to statutes, bylaws and legal structure of the company
- Anti-takeover defense mechanisms
- Sustainability shareholder proposals

## 6 Securities lending

OFM cannot be directly involved in securities lending activities for the funds under management, all duties and operations aspects should be under the responsibilities of the IM. However, there might be reasons why a sustainability fund would want to refuse SFTR techniques, based on fundamental analysis:

- **Misalignment with Sustainability Objectives:** The core activities involved in securities financing transactions (SFTs), such as repurchase agreements and securities lending, might not align with the environmental, social, and governance (ESG) objectives of a sustainability fund. These activities could potentially support companies with unsustainable practices.
- **Lack of Transparency in Underlying Assets:** The assets involved in SFTs might not be transparent enough for a sustainability fund to assess their ESG impact accurately. This lack of transparency could expose the fund to reputational risks if its holdings contradict its stated sustainability goals.
- **Potential for Increased Risk Exposure:** SFTs inherently involve counterparty risk and collateral risk, which could increase the overall risk profile of a sustainability fund. This increased risk exposure might not be consistent with the fund's risk management strategy.
- **Complexity and Cost of Reporting:** SFTR reporting can be complex and costly, especially for smaller funds. The resources required for compliance might divert attention from the fund's core sustainability objectives.
- **Limited Impact on Systemic Risk:** For smaller sustainability funds, their participation in SFTs is unlikely to have a significant impact on systemic risk. Therefore, the regulatory burden of SFTR reporting might be disproportionate to their potential contribution to financial stability.

If a sustainability fund decides to use the SFTR technique, it should consider alternative mechanisms to mitigate the associated risks by the IM and report to OFM:

- **Evidence of Annual Enhanced Due Diligence:** Conduct rigorous due diligence on the counterparties and underlying assets involved in SFTs to ensure they align with the fund's sustainability criteria.
- **Transparency and Disclosure:** Provide clear and transparent disclosure to investors about the fund's exposure to SFTs and the associated risks.
- **Alternative Risk Mitigation Strategies:** Implement risk management strategies, such as collateral diversification and independent valuation, to mitigate the risks associated with SFTs.

## 7 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 responsibility investments are included in the Risk Management Policy and any material change is communicated to senior management.

## 8 Appendix: List of the funds

Please find below the list of the funds which applied the current policy with OFM as Portfolio Manager:

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