# Smart Value Investors (the "SICAV")

# ESG factors and sustainability risks integration Policy

Approved by the Board of Smart Value Investors on September 10th 2021

"**Sustainability Risk(s)**" means an ESG event or condition that, if it occurs, could cause an actual or potential material negative impact on the value of an investment made by the relevant sub-fund. Such Sustainability Risk is a risk on its own, but can also have an impact on other risks, such as, but without limitation, market risks, liquidity risk or counterparty risk. Generally, the occurrence of a Sustainability Risk affecting an asset can trigger a negative impact on its value, including a total loss, that could lead to a negative impact on the net asset value of the relevant sub-fund.

Sustainability Risks are linked, but not limited, to environmental (including climate-related events resulting from climate change or transition responses), social and/or employee matters (e.g. discrimination, labour relations, accident prevention), respect for human rights, anti-corruption and anti-bribery matters as well as governance issues ("**Sustainability Factors**").

The assessment of Sustainability Risks is complex and may be based on ESG data which can be difficult to obtain, incomplete, approximated, out of date and/or otherwise materially inaccurate. Even if identified, no guarantee is given as whether these data will be correctly assessed.

Considering their potential long term economic impact, Sustainability Risks and Factors are recognized as an integral part supplementing the traditional risk/return analysis. Therefore, Sustainability Risks and Factors identified as material will be factored in investment decisions by the Investment Manager. Each sub-fund of the SICAV will invest with the intention to promote environmental (E), social (S) and governance (G) characteristics. No sub-fund has a sustainable investment objective.

The impact of a Sustainability Risk can vary depending on the specific risks, region(s) and/or from the asset class(es) a sub-fund is exposed to. As such, the integration of Sustainability Risk within the investment process is best described at sub-fund level. The ESG approach of the SICAV (and especially any mentioned ratio thereafter) is therefore appreciated at the sub-fund level.

In order to take into account Sustainability Risks and Factors, the Board of Smart Value Investors ("the Board") has decided to adopt an ESG factors and sustainability risks integration Policy (the "**ESG Policy**") to be applied by the Investment Manager in its management of the assets of the SICAV. This policy will be reviewed at least annually by the Board and is available at http://www.smart-pm.eu/wp-content/uploads/Smart_Value_Investors_-_Current_ESG_Policy.pdf. It applies to the following assets:

- Direct investments in equity securities ("Equity Securities"),
- Direct Investments in bonds issued by corporate or governmental entities (together "Bond Securities"),
- UCITS and/or other UCIs.

The ESG policy relies on three pillars:

- An integration approach whose goal is to favour issuers that best address the Sustainability Risks they face and adapt their business models and strategies to these new challenges,
- An exclusion approach whose goal is to restrict the investment in issuers that do not meet minimum fundamental responsibilities or are active in controversial activities,
- A Stewardship and Engagement best practices guidelines that encourage the promotion of good corporate behaviours through voting and constructive open dialogue with the issuers.

(i) Integration approach

a. Equity and Bond Securities

The goal of the integration approach is to favour issuers that best address the Sustainability Risks they face and adapt their business models and strategies to new challenges.

The integration approach is primarily based on ESG analysis provided by a well-recognized independent agency. The Board of the SICAV has selected Sustainalytics as the independent agency. Although the Board of Directors considers Sustainalytics a reliable agency, data provided may be incomplete, approximated, out of date and/or otherwise materially inaccurate and no guarantee is given as whether these data will be correctly assessed.

For each issuer, the Investment Manager will rely on the ESG Risk Rating (the "ESG Risk Rating") and the ESG Industry Percentile ("ESG Industry Percentile")[1] provided by the independent agency. The ESG Risk Rating measures an issuer's exposure to industry-specific material ESG risks and how well it is managing those risks. The ESG Industry Percentile measures how well the ESG Risks are managed by the issuer compared to its industry peers.

In case an ESG Risk Rating is not available for a governmental issuer, the Investment Manager will rely on the ESG Country Risk Rating associated with the issuer. In cases other than governmental issuer where the ESG Risk Rating is not available, the Investment Manager will not use an internally computed ESG Risk rating. For governmental issuers, the ESG Industry Percentile will be the percentile of the ESG Risk Rating associated with the issuer in the universe of governments (or countries if unavailable) rated by the rating agency.

In order not to restrain the investment opportunities pool (e.g. issuers with a low rating, but on a credible improvement track), while maintaining a sufficiently restrictive ESG framework, the integration approach for Equity and Bond Securities issuers is measured at the portfolio level of each sub fund:

- The independent agency defines issuers faced with severe and high ESG risk as having an ESG Risk Rating higher than 30. The SICAV wishes to favour issuers with a lower ESG Risk (i.e. with a rating at least considered as Medium). To make sure that this goal is met, the weighted average ESG Risk Rating of the rated issuers in each sub-fund's portfolio shall be lower than 30,
- The SICAV wishes to favour issuers with ESG characteristics higher than their industry peers. To make sure that this goal is met, the weighted average ESG Industry Percentile of the rated issuers in each sub-fund's portfolio will be lower than 40. This ensures on average, that the portfolio of rated issuers will comprise the 40% best ranked peers within their industries.

To supplement this integration approach, the Investment Manager will monitor the controversy analysis as communicated by the independent agency. This analysis assesses an issuer's involvement in controversial events that have an impact on the environment or society (e.g. Bribery and Corruption, Occupational Health and Safety). Should at least one controversy event be considered by the independent agency as severe, the Investment Manager will analyse the controversy event and engage with the issuer. After a period of twelve months, if the matter has not been resolved or if the Investment Manager has not received satisfactory explanations, the Investment Manager will seek to divest the issuer.

Through a regular monitoring, the Investment Manager will use reasonable effort to make sure that the integration approach for Equity and Bond Securities issuers is constantly satisfied.

[1] E.g. The company X active in the industry of "Food Products" is ranked (from an ESG risk rating perspective) 200 in the 500 companies active in the same sector. Its ESG Industry Percentile would be 200/500 x 100 = 40

b. UCITS and/or other UCIs

Sub-funds of the SICAV may be allowed to invest in UCITS and/or other UCIs, including Exchange Traded Funds (ETF) comparable to UCITS and other UCI (the "Invested UCI").

Depending on its investment policy and its commitments to ESG issues, an Invested UCI can fall into one of three categories:

- Does not promote ESG characteristics (Category 1).
- Promotes, among other characteristics, environmental or social characteristics or a combination of those characteristics (Category 2),
- Have sustainable investment as its objective (Category 3).

The Investment Manager will classify each Invested UCI into one of those categories. In its analysis, the Investment Manager will rely on definitions provided by the Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial sector.

The Investment Manager will be allowed to invest in Invested UCI with a maximum per Category:

| Category | 1 | 2 | 3 |
|---|---|---|---|
| Maximum | 10% of the net assets value of the sub-fund | Maximum allowed by the prospectus | Maximum allowed by the prospectus |

Through a regular monitoring, the Investment Manager will use reasonable effort to make sure that the integration approach for UCITS and/or UCI is constantly satisfied.

c. Coverage

The above rule-based integration approach allows for the inclusion of ESG aspects in the investment process. However, the strictness of these approach leads to a restrained universe of investable opportunities, such as, among others, non-rated Equity or Bond Securities issuers with good ESG track record or Category 1 Invested UCI in the process to implement Category 2 objectives. In order to be able to participate in those investment opportunities while keeping the global ESG Risk of the portfolio constrained and monitored, the Investment Manager will be allowed to invest, in aggregate, up to 10% of the net asset value of each sub-fund in non-rated issuers and Invested UCI classified as Category 1.

Through a regular monitoring, the Investment Manager will use reasonable effort to make sure that the limit described above is constantly satisfied.

(ii) Exclusion approach

The SICAV will not invest in the following assets:

- Equity or Bond Securities for which the Luxembourg Law forbids the investment (such as corporate entities involved in the production of cluster munitions weapons or explosive submunitions),
- Equity or Bond Securities issued by entities that are under European Union or United Nations sanctions,
- Equity or Bond Securities issued by corporate entities that derive more than 10% of their revenues from manufacturing controversial weapons (anti-personnel mines, biological, nuclear and chemical weaponry, depleted uranium or the components of such weapons),
- Equity or Bond Securities issued by corporate entities that derive more than 10% of their revenues from the production of tobacco or tobacco products,

- Equity or Bond Securities issued by corporate entities that derive more than 10% of their revenues from thermal coal extraction or unconventional oil and gas extraction (extraction of tar/oil sands, shale oil, shale gas, Arctic drilling),
- Bond Securities issued by government entities considered as “not free” by the Freedom in the World index on Political rights and civil liberties issued by the Freedom House and considered as “High Warning” or below by the Fragile States Index report issued by Fund for Peace.

Issuers will continuously be reviewed against those exclusions categories and the Investment Manager will seek to divest from any issuer that is found to fall within any such categories.

The Investment Manager will also use reasonable efforts to ensure that no sub-fund invests in any Equity or Bond Securities issued by entities that seriously and systematically violate their fundamental responsibilities in the areas of human rights, labour, environment, and anti-corruption.

(iii) Stewardship and Engagement

The protection of the interests of the SICAV’s investors and the successful development of an issuer (and therefore the financial success of an investment) are supported by high standards of governance. Those standards are also beneficial to other stakeholders such as employees and communities. The SICAV seeks to promote good corporate behaviours through voting and constructive open dialogue with the different issuers it is invested with.

a. Engagement

The Investment Manager will seek to proactively engage with the Investment Relations department or the management team of an issuer when the monitoring process has detected a specific issue. The Investment Manager will also seek to encourage higher disclosures of information in public reports.

When legally permitted and deemed appropriate, the Investment Manager will enter in collective engagement initiatives, especially those supported by the “United Nations Principles for Responsible Investing”.

b. Voting Policy

The Board of the SICAV considers that the International Corporate Governance Network (ICGN) Global Governance Principles[2] are a detailed basis for sound voting guidelines.

The Investment Manager will therefore apply the following principles when taking decisions on how to vote for/against/abstain for the assets of the SICAV:

- The Board of the issuer should act on an informed basis and in the best long-term interests of the company with good faith, care and diligence, for the benefit of shareholders, while having regard to relevant stakeholders, including creditors,
- Board leadership calls for clarity and balance in Board and executive roles and an integrity of process to protect the interests of minority investors and promote success of the company as a whole,
- There should be a sufficient mix of directors with relevant knowledge, independence, competence, industry experience and diversity of perspectives to generate effective challenge, discussion and objective decision-making,
- The board of the issuer should adopt high standards of business ethics, ensuring that its vision, mission and objectives are sound and demonstrative of its values. Codes of ethical conduct should be effectively communicated and integrated into the company’s strategy and operations, including risk management systems and remuneration structures,

[2] https://www.icgn.org/policy/global-governance-principles

- The Board of the issuer should proactively oversee, review and approve the approach to risk management regularly or with significant business change and satisfy itself that the approach is functioning effectively,
- Remuneration should be designed to effectively align the interests of the Chief Executive Officer and other executive officers with those of the company and its shareholders to help ensure long-term performance and sustainable value creation. The Board should also ensure that aggregate remuneration is appropriately balanced with the needs to pay dividend to shareholders and/or retain capital for future investment,
- The Board of the issuer should oversee timely and high-quality company disclosures for investors and other stakeholders relating to financial statements, strategic and operational performance, corporate governance and material environmental and social factors. A robust audit practice is critical for necessary quality standards,
- Rights of all shareholders should be equal and must be protected. Fundamental to this protection is ensuring that shareholder voting rights are directly linked to shareholder's economic stake, and that minority shareholders have voting rights on key decisions or transactions which affect their interest in the company.

The Board of the SICAV requires the Investment Manager to vote on any meaningful decision. However, in some certain situations, such as when the cost of submitting a vote outweighs the estimated associated benefits, the Investment Manager is allowed to refrain from voting. In casting the vote, the Investment Manager should also take into account the particular circumstances of the company concerned and prevailing local market best practices.

The Investment Manager will issue an annual report available on his website (http://www.smart-pm.eu/wp-content/uploads/Smart_Private_Managers_-_Current_Report_Stewardship.pdf) regarding his global Stewardship and Engagement activities.

Further details on the Stewardship and Engagement Policy are available on the website of the Investment Manager (http://www.smart-pm.eu/wp-content/uploads/Smart_Private_Managers_-_Current_Policy_Stewardship_and_Engagement.pdf).