

	<b>Responsible investment policy</b>	Reference: VI-1 Version: 1.0
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### Policy Objective

MONOCLE AM has been a signatory of the Principles for Responsible Investment (PRI) since 2021.

This policy aims to present how MONOCLE AM integrates Environmental and Governance criteria in its analysis and investment strategy - including the Company's exclusion policy.

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MONOCLE AM	Yes	Dropbox ; Binocular ; Explorer

Management of procedure updates				
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1.0	17/01/2022		MONOCLE AM	Validation

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## 1. Preamble

MONOCLE AM adopts a responsible approach to investment and integrates into its investment strategy the consideration of extra-financial criteria related to the fight against global warming and good governance.

Our commitment is based on a double observation:

- For one thing, we are convinced that in today's world, taking these non-financial factors into account is inseparable from the analysis of fundamentals in determining a company's value.
- By conviction: we consider that as a company, we have a social responsibility.

Consequently, our investment decision necessarily takes into account the environmental performance of companies and the quality of their governance.

In order to materialise its commitment to responsible investment, [MONOCLE AM has signed the Principles for Responsible Investment](#) supported by the United Nations.

The purpose of this policy is to present how MONOCLE AM integrates Environmental and Governance (EG) criteria into its analysis and investment strategy.

## 2. Presentation of the responsible investment policy

MONOCLE AM takes into account environmental (E) and good governance (G) criteria from the initial phase of company analysis. Each investment decision is made in the light of these considerations.

The Management Company's responsible investment approach is based on a triple requirement:

- Exclusion of companies active in controversial sectors ;
- Issuers must achieve a minimum E-G rating;
- Achieving a minimum average E-G rating at the portfolio level.

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## 1) Exclusion of controversial sectors

### **Thermal coal**

Monocle AM excludes from its investment universe companies active in the thermal coal sector (fuel used for electricity production), given the major negative impact of this fuel on the environment.

For the sake of clarity, the following are considered to be undertakings active in the thermal coal sector:

- Companies with an annual thermal coal production of more than 20 million tonnes;
- Or companies whose turnover depends more than 20% on the exploitation of thermal coal.

However, in the event of a Green Bond issue by a company corresponding to one of the above criteria, Monocle AM may subscribe to it insofar as these bonds contribute to the energy transition of the company - and therefore of the company.

Monocle AM relies on various sources of data, including the work of the NGO URGEWALD, which has developed and maintains the *Global Coal Exit List (GCEL)*, which lists companies involved in the thermal coal value chain (<https://coalexit.org/>).

It should be noted that metallurgical coal, used in the production of steel, is not included in the scope of the exclusion in the absence of alternatives at present.

### **Tobacco**

Monocle AM also undertakes not to invest in companies active in the tobacco sector because of the harmful nature of this product for health and the environment.

For greater clarity, the following are excluded from the investment universe:

- Companies involved in tobacco production ;
- Or companies with a significant shareholding (more than 25% of the voting rights) in these companies;
- Or companies involved in the wholesale distribution of tobacco (more than 5% of their turnover).

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## 2) E-G evaluation methodology for issuers

MONOCLE AM has developed its own model to assess the environmental commitment and good governance of issuers.

### A selective approach

Each issuer is assigned an overall E-G rating ranging from 0 to 5 based on the evaluation of extra-financial indicators defined according to the different categories of issuers (company or government entity). To avoid any confusion, it is specified that the E-G ratings are determined by the Management Company.

MONOCLE AM adopts a "selective" approach and is committed to :

- to obtain an average portfolio E-G rating of more than 3 ;
- not to invest when the issuer is rated below 2.

MONOCLE AM would like to stress that this dual red line approach has been introduced so that the average E-G rating of the portfolio does not lose its meaning by masking unequal situations between issuers.

In this way, MONOCLE AM does not allow any compromise with issuers whose commitment to the environment and good governance is insufficient.

### Definition of non-financial criteria

MONOCLE AM uses the extra-financial criteria defined below to assess the environmental and governance practices of issuers. It is specified that the criteria vary according to the nature of the issuer (company or State).

### **Valuation of companies (shares or corporate bonds)**

To evaluate an issuer, MONOCLE AM adopts a dual approach:

- it looks at the issuer's positioning in relation to its peers (for the same sector of activity)
- but it also takes into account absolute values. For example, a company with a very polluting activity would get a bad rating even if it polluted less than its direct competitors.

MONOCLE AM assigns an "E-G" rating to each company on a scale of 0 to 5.

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To do this, MONOCLE AM has defined a list of criteria to assess each company's commitment to the environment and the quality of its governance. Each criterion is rated from 0 to 5. The company's overall "E-G" score is the weighted average of the scores for each criterion.

The Management Company relies on information obtained both from public sources or third party ESG providers and from direct interactions with companies.

	Criteria	Sub-criteria	Criterion rating* (%)	Weighting
Environmental Pillar	Carbon emissions	Carbon emissions (scope 1+2)	<b>Essential data.</b> <i>If missing, the score for the criterion is zero.</i>	40%
		Carbon intensity (scope 1+2)		
		Carbon reduction target		
		Carbon reduction target horizon		
		Carbon emissions (scope 3)	Malus <i>If data is missing, the score of the criterion has a malus of -2 pts</i>	
		Carbon intensity (scope 3)		
		Total carbon intensity (scope 1+2+3)		
	Water, waste and energy	Proportion of waste recycled	Malus <i>If data is missing, the score of the criterion has a malus of -1 pt</i>	30%
		Proportion of renewable energy in the energy mix	Malus <i>If data is missing, the score of the criterion has a malus of -1 pt</i>	
		Water consumption intensity	Malus <i>If data is missing, the criterion score has a malus of -1 pt</i>	
Governance pillar	Independent members		<b>Essential data.</b> <i>If missing, the score for the criterion is zero.</i>	30 %
	Mixed			
	Proportion of women in management positions		Malus <i>If data is missing, the score of the criterion has a malus of -1 pt</i>	
Study of environmental, social and governance controversies.			In the presence of major and verified controversies, Monocle AM refrains from investing.	

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*\*When data is missing, MONOCLE AM applies a penalty system depending on the nature of the missing information.*

The definitions of the criteria are available in the Annex.

### **Sovereign bond valuation**

Given the complexity of understanding the quality of a country's governance and environmental performance, MONOCLE AM has chosen to base its assessment on independent and globally recognised indicators.

The indicators used by MONOCLE AM are presented in the table below.

	Indicators	Rating
<b>Pillar Environment</b>	Environmental Performance Index - Yale University (EPI)*	Each country is examined in depth on the basis of the defined indicators and then given a score from 0 to 5 for each pillar.
	Climate Change Performance Index (CCPI)*	
	Renewable Energy Indicator - RISE	
	Sustainable governance Indicators - Bertelsmann Stiftung SGI	
<b>Governance pillar</b>	Democracy Index - The Economist Intelligence Unit	The average of the two pillars gives the final E-G score for the state.
	World Justice Project Rule of Law Index	
	Existence of international sanctions	

*\*Indicators recommended by the World Bank to assess the sustainability of sovereign bonds in its 2021 report: "[Key Performance Indicators for Sovereign Sustainability-Linked Bonds](#)".*

The definition of each indicator is given in the annex.

### 3) Scope of the policy

The responsible investment policy applies to the entire portfolio (it should be noted that cash is not rated due to the current lack of consensus on the ESG assessment methodology for these financial products).

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### 3. Integration of E-G policy in the investment strategy

MONOCLE AM integrates the E and G criteria from the initial analysis phase, upstream of the investment decision which necessarily takes into account the extra-financial characteristics of the products.

The evaluation of issuers' E-G criteria is taken into account at every stage of the investment process:

1. Initial research phase: the E-G model is directly incorporated into the fundamental analysis tool EXPLORER (a proprietary tool connected to Reuters summarizing all past financial statements of a company);
2. Portfolio monitoring: The issuer's E-G score, as well as the commentary with the relevant points of attention, is systematically reported in the BINOCULAR portfolio management tool (a proprietary tool for monitoring management constraints) so that the managers can ensure regular monitoring.

The ESG assessment of issuers is updated at least once a year, when the annual reports are published.

In addition, the Management Company regularly monitors the issuers in its portfolio, including environmental and governance considerations.

In the event that an issuer no longer meets the requirements of MONOCLE AM's responsible investment policy, the management team undertakes to liquidate the position while preserving the interests of its clients (gradual disposal, timetable adapted to the volumes handled and the market environment, etc.)

### 4. Shareholder engagement

Given its small size, MONOCLE AM's shareholder engagement is currently expressed mainly through the exercise of voting rights at general meetings.

In order to fulfil its responsibilities as an investor, MONOCLE AM exercises its voting rights with a long-term perspective, promoting best practices in terms of



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governance and corporate responsibility.

The shareholder engagement policy is directly available on the Company's website or on request: [monocle@monocle.lu](mailto:monocle@monocle.lu) - 01 40 26 46 22.

## 5. Governance and reporting

### 1) Governance and control

The entire management team is responsible for ensuring the proper application of this procedure. To this end, the management team is made aware of environmental and governance issues (annual training on these topics).

MONOCLE AM's senior managers oversee the proper implementation of this policy.

A formal report on the proper application of this policy is made within the framework of the MONOCLE AM Investment Committee, which meets every six months.

Finally, an external audit is carried out by the delegated RCCI as part of his duties. This policy is reviewed annually.

### 2) PRI reporting

Monocle Asset Management is a [signatory of the Principles for Responsible Investment](#) supported by the United Nations since August 11, 2021:

1. We will integrate ESG issues into our investment analysis and decision-making processes.
2. We will be active shareholders and integrate ESG issues into our shareholding policies and procedures.
3. We will, wherever possible, require the entities in which we invest to be transparent on ESG issues.
4. We will promote the adoption and implementation of the Principles in the investment sector.
5. We will cooperate to improve the effectiveness of our implementation of the Principles.
6. We will report on our activities and progress in implementing the Principles.

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From 2022 onwards, we will publish an annual progress report, available on the PRI website:  
<https://www.unpri.org/>

## 6. Annexes

### 1) E-G criteria definitions for companies

In alphabetical order.

#### **Carbon emissions :**

- **Scope 1:** direct emissions of CO2 and CO2 equivalents in tons.
- **Scope 2:** indirect CO2 and CO2 equivalent emissions in tons
- **Scope 3:** CO2 emissions and CO2 equivalents in tons.

**Controversy study:** From a good governance perspective, MONOCLE AM necessarily takes into account environmental, social and governance-related controversies that could affect issuers (industrial accidents, pollution, corruption, money laundering, etc.) and the corrective measures put in place. In the presence of major and verified controversies, Monocle AM refrains from investing.

**Carbon reduction target horizon:** the year to which the emission reduction target is set.

#### **Carbon intensity :**

- **Scopes 1+2:** Total direct and indirect CO2 and CO2 equivalent emissions in tonnes divided by net sales or revenues in millions of dollars.
- **Scope 3:** CO2 and CO2 equivalent emissions from Scope 3 in tonnes divided by net sales in millions of dollars.
- **Total carbon intensity:** sum of the carbon intensity of scopes 1+2 and the carbon intensity of scope 3.

**Water use intensity:** Total water use in cubic metres divided by net sales or revenues in millions of dollars.

**Independent members:** percentage of independent members on the Board of Directors, as declared by the company.

**Gender diversity:** percentage of women on the Board of Directors.

**Carbon reduction target:** the percentage reduction in emissions set by the company.

**Proportion of waste recycled:** volume of waste recycled divided by the total volume of waste reported by the company.

**Proportion of renewable energy in the energy mix:** total primary renewable energy use divided by total direct and indirect energy consumption (in gigajoules).

**Proportion of women in management positions:** percentage of women managers divided by the percentage of women employees.

## 2) Definition of the indicators used for sovereign bonds

In alphabetical order.

**Climate Change Performance Index (CCPI):** The Climate Change Performance Index is a rating system developed by the German environmental and development organisation *Germanwatch* e.V. to improve transparency in international climate policy. The index assesses and compares the climate protection performance of 60 countries and the European Union (EU). Published since 2005 and presented annually at the UN Climate Change Conference, the index has also included the results of the Paris Agreement negotiations since 2017. *Germanwatch* publishes the index in cooperation with the *NewClimate Institute* and *Climate Action Network International*, and with financial support from the *Barthel Foundation*. Website: <https://ccpi.org/>

**Democracy Index - The Economist Business Unit :** The Democracy Index presents an overview of the state of democracy in the world (165 states). The index is based on five categories: electoral process and political pluralism; government functioning; political participation; political culture; and civil liberties. Each country is then categorized into one of four regime types: "full democracy", "imperfect democracy", "hybrid regime" or "authoritarian regime". The index can be described as "imperfect democracy", "hybrid regime" or "authoritarian regime". The index has been published since 2006 by the *Economist Intelligence Unit* (EIU), the research arm of the *Economist Group*. Website: <https://www.eiu.com/n/>

**Existence of international sanctions:** This category refers to countries under embargo or subject to EU and/or UN sanctions to combat the financing of terrorism, combat the use and proliferation of chemical weapons, combat cyber attacks and combat human rights violations. Website: <https://www.tresor.economie.gouv.fr/services-aux-entreprises/sanctions-economiques>

**Environmental Performance Index (EPI):** The Environmental Performance Index (EPI) has been evaluating and comparing the effectiveness of states' environmental policies since 2006. Using 32 sustainability performance indicators, the EPI ranks 180 countries according to their "environmental health" and the vitality of their ecosystems. The CAI is a joint project of the *Yale Center for Environmental Law & Policy* at Yale University and the *Center for International Earth Science Information Network* (CIESIN) at the *Earth Institute*, Columbia University. Website: <https://epi.yale.edu/>

**Renewable Energy Indicator - RISE:** The RISE score (*Regulatory Indicators for Sustainable Energy* - Regulatory Indicators for Sustainable Energy) is an index to evaluate and compare the policies and regulations of different states in the renewable energy sector since 2010. RISE assesses the policy engagement of states in each of the three pillars of sustainable energy: access to electricity, energy efficiency and renewable energy. MONOCLE AM is based on the indicators of the Renewable Energy pillar. RISE is a project led by the World Bank Group and the *Energy Sector Management Assistance Program* (ESMAP). Website: <https://rise.esmap.org/>

**Sustainable governance Indicators - Bertelsmann Stiftung SGI:** The Sustainable Governance Indicators (SGI), published by the *Bertelsmann Stiftung*, assess and compare the capacity of OECD and EU countries to respond to current social and political challenges. The SGIs are divided into three indices: the Public Policy Performance Index (economic, social and environmental), the Democracy Index and the Governance Index. Website: <https://www.sgi-network.org/2020/>

**World Justice Project Rule of Law Index:** The *World Justice Project Rule of Law* Index assesses the perception of the rule of law in the world (139 countries). The index is based on 8 dimensions of the rule of law: the existence or not of limited government powers, the absence of corruption, the maintenance of order and security, respect for fundamental rights, government transparency, respect for the law, civil justice and criminal justice. Website: <https://worldjusticeproject.org/>