sycomore am

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# Principal Adverse Impact Policy

SYCOMORE ASSET MANAGEMENT

Certified B Corporation

This document has been prepared in compliance with Article 4 of the regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector – *SFDR*.

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This Principle Adverse Impacts (PAI) policy is part of Sycomore AM ESG approach and aims at complying with the Sustainable Financial Disclosure Regulation[1]. This policy details how we take into account PAI at Sycomore AM level.

As Sycomore AM focuses on responsible investment, the integration of PAI is part of our ESG approach, composed of our ESG integration and stewardship policy, our voting policy as well as our exclusion policy.

Moreover, as per the regulation, PAI is a key element of our definition of sustainable investment, supporting the "Do No Significant Harm" (DNSH) principle.

The first part of this document explains how PAI are integrated at Sycomore AM level. The second part details the binding criteria applied for each PAI under the DNSH principle of our definition of a sustainable investment.

Starting in 2023, this policy will be complemented by an annual statement reporting our results on each adverse sustainability indicator and explaining the actions taken to tackle adverse impacts of our investments when relevant. While the current policy focuses on the PAI indicators, the annual statement will also cover at list two additional adverse sustainability impact indicators related to environmental and social aspects.

This policy is prepared by the ESG specialists and validated by the head of sustainable investment strategy.

[1] Regulation (EU) 2019/2088 of the European Parliament and Council of 27/11/2079 on the Disclosure of sustainability information in the financial services industry, known as SFDR

## 1. Introduction – what are PAI?

The Regulatory Technical Standards published by the European Commission through a delegated act issued on April 6 2022[2] detail a list of adverse sustainability indicators. A list of 14 Principle Adverse Impact indicators is given, applicable to investments in investee companies. 16 environmental and 17 social and ethics additional indicators are also listed. Examples of indicators are Greenhouse gas (GHG) emissions, fossil fuel exposure, hazardous waste, water pollution, impact on biodiversity-sensitive areas, board gender diversity, unadjusted gender pay gap, United Nations Global Compact compliance, etc.

## 2. How does Sycomore AM take into account adverse impacts on sustainability factors?

Integration of adverse impacts on sustainability factors in our fundamental analysis approach

As a pioneer in responsible investment, Sycomore AM integrates ESG factors systematically in all its direct investments. Indeed, our fundamental analysis approach, called SPICE, integrates the analysis of the business model as well as the risks and opportunities on ESG factors through a stakeholder approach: S for Society & Suppliers, P for People, I for Investors, C for Clients, E for Environment.

The development of our research framework was inspired by the OECD's Guiding Principles for multinational companies, the United Nations' Global Compact, the International Labour Organization's international standards and the UN Guiding Principles on Business and Human Rights.

The adverse impacts covered by the indicators listed in the above-mentioned regulation are integrated through the SPICE model criteria, according to their materiality with regards to the company's activities and regional footprint, and the availability of the corresponding data. Overall, among the 46 optional and compulsory adverse impacts indicators applicable to companies, and excluding indicators dedicated to sovereign investments (14 PAI indicators listed in Table 1 of the RTS – Regulatory Technical Standards - and the 32 additional AI indicators listed in tables 2 and 3 of the RTS), 42 are covered by our SPICE analysis framework (23 environmental and 19 social indicators) and 4 are addressed by Sycomore AM's Exclusion Policy (1 environmental indicator, exposure to the fossil energy industry, and 3 social indicators, such as controversial weapons, violations/non-compliance with UN Global Compact and the OECDs Guidelines for multinational companies).

More information on how PAI indicators are covered by SPICE is available in our ESG integration and stewardship policy.

Integration of PAI indicators in our sustainable investment definition

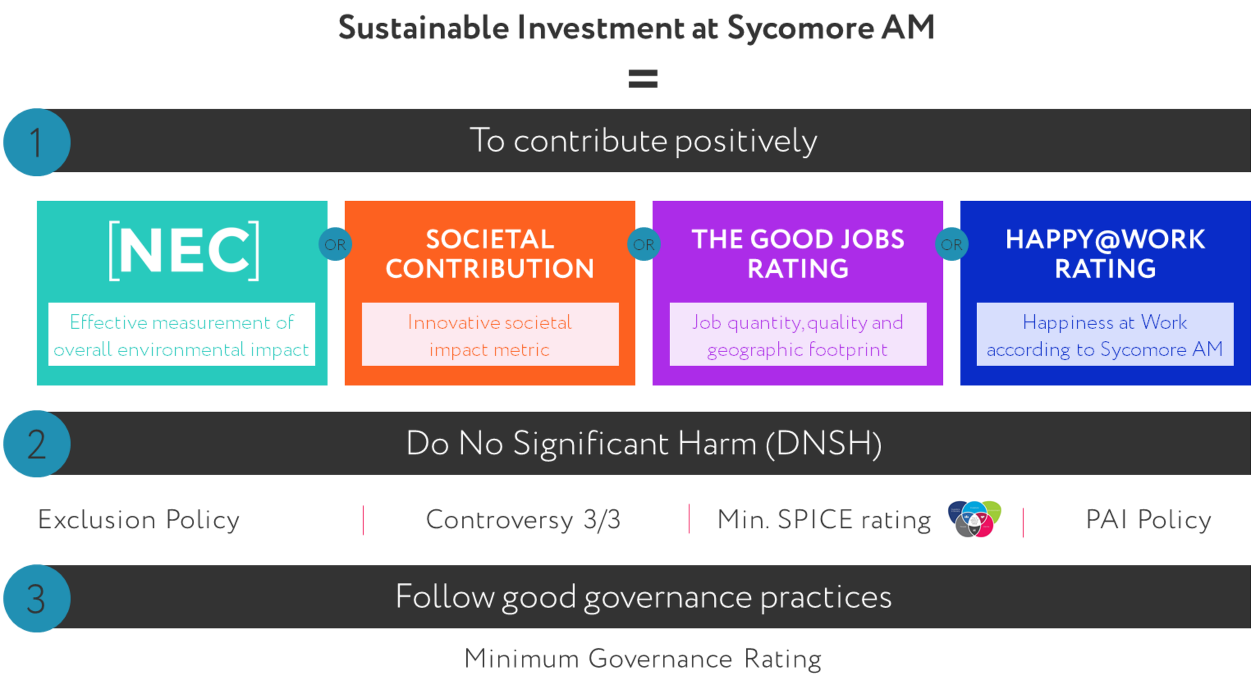
The definition of a sustainable investment as per SFDR is as follows:

> "'sustainable investment' means an investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy, or an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities, provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular

[2] The Regulatory Technical Standards of Regulation (EU) 2019/2088 on the Disclosure of sustainability information in the financial services industry

with respect to sound management structures, employee relations, remuneration of staff and tax compliance."

The following table summarizes the indicators used by Sycomore AM to identify sustainable investments within its investment universe:




PAI indicators are systematically taken into account under the "Do No Significant Harm" principle of this definition which applies for all our sustainable investments in our products classified under Article 8 and Article 9 as per SFDR which represent approximatively 95% of our assets under management. Among Article 8 products, most of them have a minimum sustainable investment share of 50% or 70%. Therefore, PAI consideration at Sycomore AM level relies notably on the consideration of PAI in the sustainable investment definition. There is no hierarchisation of PAI at Sycomore AM level. The details of the binding criteria defined to take into account PAI indicators in sustainable investments are provided in section 2.

PAI indicators consideration through our responsible investment approach

Some specific PAI indicators have been considered by Sycomore AM through the following elements of our responsible investment approach:

- Natural Capital Strategy: our Natural Capital Strategy explains our approach, as an investor, to contribute to the environmental challenges, in compliance with external frameworks and in particular the Taskforce on Nature-related Financial Disclosures (TNFD) recommendations. Targets validated by the Science-Based Targets initiative have been defined to align our strategy with a 1.5°C scenario. These targets are a key element to manage PAI indicators #1 to #6 related to GHG emissions.
- Exclusion policy: our exclusion policy targets activities that appear to be incompatible with our commitment to responsible investing due to their negative effects on sustainability factors. Four exclusion criteria are related to PAI indicators:
    - Violations of the UN Global Compact and of the OECD Guidelines for multinational companies (PAI #10);
    - Exposure to companies operating within the fossil fuel industry as well as carbon intensive utilities (PAI #3&4);

    - Exposure to controversial weapons (PAI #14);
    - Exposure to chemical pesticides production (negative impact on biodiversity, PAI #7).

- Voting policy: our voting policy targets specifically the PAI indicator related to gender diversity at board level (PAI #13). We encourage companies to align with a minimum threshold of 40% of the board for the under-represented gender. Below this threshold, we vote against nomination of new board members of the over-represented gender and/or the re-election of members and in particular of the chair of the nomination committee.
- Stewardship policy: our stewardship policy specifically targets our residual exposure to fossil fuels (PAI #4), which is very low considering our exclusion policy on the sector. Our investments in companies with exposure to fossil fuels are subjected to engagement actions. Other PAI indicators may also be tackled through our stewardship policy and in particular on the themes of human rights (PAI #10&11), diversity and gender pay gap (PAI #12&13) as well as biodiversity (PAI #7).

## 3. How PAI indicators are considered within the DNSH principle of our definition of sustainable investment?

### 3.1 Greenhouse gas (GHG) emissions

Indicators #1-2-3-5-6 are related to GHG emissions: GHG emissions scope 1, 2, 3, and total emissions; Carbon footprint; GHG intensity of investee companies; share of non-renewable energy consumption and production; energy consumption intensity per high impact climate sector. These PAI indicators aim at identifying investments that may significantly harm the climate change mitigation objective.

For all sectors, GHG emissions should be assessed adjusting for company size, relative to their sub-sector, and taking into account science-based decarbonization levels required to keep global temperature increase below 2°C compared to preindustrial temperatures, as described in the Fifth Assessment Report of the Intergovernmental Panel on Climate Change[3] (IPCC).

Therefore, Sycomore AM's PAI approach to GHG emissions for all sectors relies on proxys that aim at identifying the alignment of companies climate strategy with the objectives of the Paris agreement. To do so, Sycomore AM firstly relies on the science-based target initiative (SBTi[4]). For companies not having targets validated by SBTi, Sycomore AM relies on its internal analysis formalized in the E pilar of SPICE: companies which clearly have strategies going against limiting global worming below 2°C are excluded.

Indicator #4 is related to exposure to companies active in the fossil fuel sector: companies active in the fossil fuel sector are addressed by Sycomore AM's exclusion policy which sets exclusion criteria for companies involved in the thermal coal industry as well as the conventional and unconventional oil & gas value chain.

### 3.2 Biodiversity

Indicator #7 is related to activities negatively affecting biodiversity-sensitive areas, complemented by indicator #14 of Table 2 related to natural species and protected areas: these two indicators send a signal that activities in biodiversity-sensitive areas without appropriate mitigation measures might occur.

[3] https://unfccc.int/topics/science/workstreams/cooperation-with-the-ipcc/the-fifth-assessment-report-of-the-ipcc?gclid=CjwKCAjw7p6aBhBiEiwA83fGupjyovLRq1NKs9o5UtIotAQQcswzZD30tofiDkgryZ8SlJHtnG5y4BoCEiwQAvD_BwE

[4] https://sciencebasedtargets.org/

Companies for which this is confirmed are deemed to significantly harm the objective of protection and restoration of biodiversity and ecosystems.

To assess the exposure to this PAI indicator, we use a dataset that identifies companies operating in or near biodiversity-sensitive areas based on companies reports. This dataset enables to identify companies that may negatively affect biodiversity-sensitive areas: analysts are then in charge of checking if appropriate mitigation measures are taken. Engagement actions with targeted companies are taken if the information is not publicly available. The main objective of these engagement actions is to check if companies comply with the "Do No Significant Harm" principle defined in the Taxonomy regulation on biodiversity[5].

To complement this dataset, companies identified with a red flag on the criteria "biodiversity" of our fundamental analysis model SPICE, are also engaged to better assess their exposure to this PAI indicator and ensure appropriate mitigation measures are taken.

### 3.3 Water

Indicator #8 is related to emissions to water. For companies reporting emissions[6] exceeding 10 tons per year, further investigation is made on the impact on stakeholders of past emissions based on:

- Controversy reviews: a severe impact not yet fully addressed by the company is deemed to significantly harm the objective of sustainable use and protection of water and marine resources;
- ESG analysis: companies identified with a red flag due to pollution on the criteria "water" of our fundamental analysis model SPICE are engaged to better assess their exposure to this PAI indicator and ensure appropriate mitigation measures are taken.

### 3.4 Waste

Indicator #9 is related to hazardous waste and radioactive waste ratio. For companies reporting quantities exceeding 100tons/year, further investigation is made on the impact on stakeholders of waste generated, based on:

- Controversy reviews: a severe impact not yet fully addressed by the company is deemed to significantly harm the objective of pollution prevention and control;
- ESG analysis: companies identified with a red flag due to pollution on the criteria "waste" of our fundamental analysis model SPICE are engaged to better assess their exposure to this PAI indicator and ensure appropriate mitigation measures are taken.

### 3.5 UN Global Compact principles/OECD Guidelines for Multinational Enterprises compliance

Indicator #10 is related to violations to the UNGC principles and OECD guidelines: our controversy analysis framework aims at identifying violations of these international standards. Companies affected by a very severe controversy (-3/3) are excluded.

[5] an Environmental Impact Assessment (EIA) or screening has been completed in accordance with Directive 2011/92/EU. Where an EIA has been carried out, the required mitigation and compensation measures for protecting the environment are implemented. For sites/operations located in or near biodiversity-sensitive areas (including Natura 2000 network protected areas, UNESCP World Heritage sites and Key Biodiversity Areas, as well as other protected areas), an appropriate assessment, where applicable, has been conducted and based on its conclusions the necessary mitigation measures are implemented.

[6] The RTS of SFDR define emissions to water as follows: direct emissions of priority substances as defined in Article 2(30) of Directive 2000/60/EC of the European Parliament and of the Council and direct nitrates, direct phosphate emissions, direct pesticides emissions as referred to in that Directive, Council Directive of 12 December 1991 concerning the protection of water against pollution caused by nitrates from agricultural sources (91/676/EEC), Council Directive 91/271/EEC of 21 May 1991 concerning urban waste-water treatment and Directive 2010/75/EU of the European Parliament and of the Council.

Indicator #11 is related to the lack of processes and compliance mechanism to monitor compliance to these international standards, as a signal that further due diligence is necessary to conclude on the likeliness of potential violations. A dedicated dataset enables to identify companies with a lack of processes and compliance mechanism to monitor compliance to these international standards. Moreover, our SPICE analysis model looks at the way companies manage their risks and opportunities towards their stakeholders. Companies identified in this dataset, as well as companies that are not covered by this dataset, and with a score below 2.5/5 on the Society, People or Clients pilar are excluded.

### 3.6 Gender equality

Indicator #12 is related to unadjusted gender pay gap. Unadjusted gender pay gap in the EU averaged 13% in 2020 and ranged among Member States between 1% and 22%. Companies with an unadjusted gender pay gap exceeding 30% are deemed to significantly harm the social objective of tackling inequality.

To complement this analysis, companies identified with a red flag due to gender pay gap on the criteria “fairness” are excluded.

Indicator #13 is related to Board gender diversity. Companies associated with a share of women seating on the board below 15% for a board composed of more than 12 members and companies with no woman on the board for a board composed of 7 to 12 members are deemed to significantly harm the social objective of tackling inequality.

### 3.7 Controversial weapons

Indicator #14 is related to controversial weapons: companies active in controversial weapons are addressed by Sycomore AM’s exclusion policy which sets exclusion criteria for companies involved in the manufacture, including service providers and technical support, of anti-personnel mines, cluster bombs, depleted uranium weapons, chemical weapons and biological weapons and their components.

### 3.8 Applicable to sovereigns and supranationals

Indicator #15 is related to GHG intensity which is part of the analysis of sovereigns, described in Sycomore AM’s ESG integration policy, that allows to exclude low performers across a range of environmental, social and governance matters.

Indicator #16 is related to investee countries subject to social violations: similarly, the analysis framework applicable to sovereigns addresses adherence to the Charter of the United Nations. In addition, a set of indicators allows to assess government practices in terms of sustainable development and governance, including in particular corruption, human rights and social inclusion.

### 3.9 How are data sourced and what are the main limitations?

Data used to assess PAI indicators are sources primarily from Factset which based its dataset on the collection of data published by companies. When our PAI policy rely on our exclusion policy, data are sourced from MSCI on weapons and controversies and S&P Trucost on fossil fuel exposure. Finally, when our PAI policy rely on SPICE, the data is sourced directly by Sycomore AM from companies reports, third parties reports or dialogue with companies.

Most of the data are reported by companies and thus not estimated by a data provider or by Sycomore AM.

The main limitations are as follows:

- Completeness: coverage of dataset varies from 10% to 100% of the Eurostoxx. Indeed, some data are not always published by companies. The implementation of the Corporate Sustainability

Reporting Directive in the coming years will be a key element to increase data availability. Engagement on disclosure is also an important focus for Sycomore AM to tackle this issue.

- Heterogeneous definition and methodology: all PAI indicators are not fully defined by the regulation. Consequently, discrepancies in the definition and methodology may occur from a company to another. A quality check on the dataset aims at identifying outlier values that may be checked or not considered if there is no possibility to correct the data.
- Accuracy: for some PAI indicators accurate dataset are still not available. Therefore, qualitative proxies, mainly based on our SPICE fundamental analysis model are used.

## 4. Appendix: Implementation rules

| PAI indicator | Implementation |
|---|---|
| GHG emissions | 1. If the company has a temperature target validated by SBTi (1.5°C, well-below 2°C, 2°C), the company passes the test<br>2. If not, the test relies on the SPICE criteria which aims at assessing the alignment of the climate strategy of a company with the objectives of the Paris agreement. If the criteria is assessed with a red flag, then the company fails the test and is excluded. |
| Fossil fuel sector | Companies targeted by SAM exclusion policy (at SAM level + at SRI level) under appropriate sections:<br>• Thermal coal<br>• Conventional oil and gas<br>• Unconventional oil and gas<br>If the company is screened out by one or more of these sections, then the company fails the test. |
| Biodiversity watchlist | This screens companies targeted by 2 adverse impact indicators:<br>• PAI (Table 1) #7 – Activities negatively affecting biodiversity-sensitive areas<br>• Other environmental AI (Table 2) #14 - Natural species and protected areas: companies either:<br>- Whose operations affect threatened species<br>- Without a biodiversity policy and with operations in, or adjacent to, a protected area or an area of high biodiversity value outside protected areas<br>If the company is targeted by one or more of the above screenings, then it is on the "biodiversity watchlist". A detailed engagement process is provided in the PAI policy to address this companies' watchlist.<br>At this stage, being on the watchlist does NOT prevent from being a sustainable investment. |
| Water | If:<br>• Reported emissions to water as per SFDR definition exceeds a minimum threshold (10 tons/year) AND<br>• The company is associated with a red flag on "water" in SPICE, due to pollution<br>• The company is associated with a severe controversy (-2 or -3/3 residual impact) involving water pollution<br>Then the company fails the test. |
| Waste | If:<br>• Reported hazardous waste quantities as per SFDR definition exceeds a minimum threshold (100 tons/year) AND<br>• The company is associated with a red flag on "waste" in SPICE, due to pollution<br>• The company is associated with a severe controversy (-2 or -3/3 residual impact) involving waste management<br>Then the company fails the test. |
| UNGC/OECD GME violations | If the company is associated with a level 3/3 controversy, then the company fails the test. |

| | |
|---|---|
| UNGC/OECD GME due diligence | If:<br>• The company is identified as lacking processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises AND<br>• The company has a SPICE rating strictly below 2.5/5 on either: S, P or C<br>Then the company fails the test. |
| Gender diversity | If:<br>• The Board of the company exceeds 12 members, and that the share of women on this Board is below 15% (2 women for 13 members; 3 women for 20 members, etc.) OR<br>• The Board of the company is between 7 and 12 members, and that there is no woman on the Board<br>Then the company fails the test. |
| Gender pay gap | Unadjusted gender pay gap in the EU averaged 13% in 2020 and ranged among Member States between 1% and 22%.<br>If the unadjusted gender pay exceeds 30%, then the company fails the test. |
| Controversial weapons | If the company is targeted by SAM exclusion policy under the section “controversial weapons”, then the company fails the test. |