2023

sycomore

# ESG Integration Policy

Last updated: November 2023

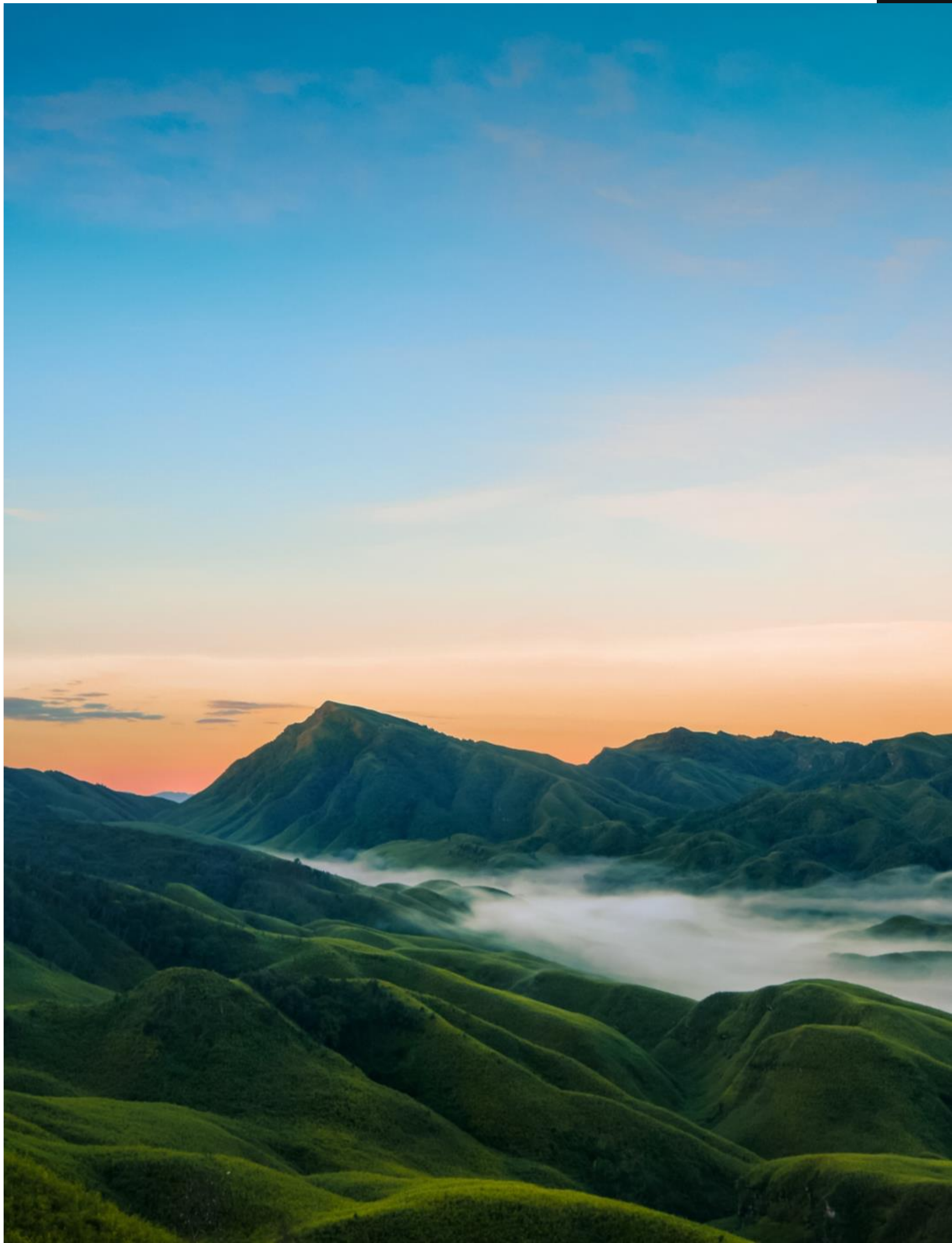
# Preface

The financial sector funds the real economy, so it has a decisive role to play in developing a model that is able to meet key environmental and social challenges.
**It is Sycomore AM's responsibility, as an asset manager, to make investment decisions in support of a sustainable economy and to help companies in their transition.**

This document describes Sycomore AM's policy regarding the integration of environmental, social and governance (ESG) criteria. It is supplemented with other, more detailed policies on our exclusions, the exercise of our voting rights and our approach to shareholder engagement. All these policies are central to our company's identity and support our mission. They have been prepared in compliance with the requirements of Article R533-16 of the French Monetary and Financial Code and present the principles by which sustainability risks are integrated into our investment decision-making process, in accordance with the EU's Sustainable Finance Disclosure Regulation (SFDR).

In the following pages, we provide details on our investment philosophy, our investment analysis tools, the human resources we dedicate to integrating ESG (including sustainability risks), our governance, and the measures we implement for control and transparency. This document serves as a basis for our dialogue with Sycomore AM's stakeholders; it guides and formalises our responsible investment approach.

It is updated each year by the ESG research team and validated by the Sustainability Manager.



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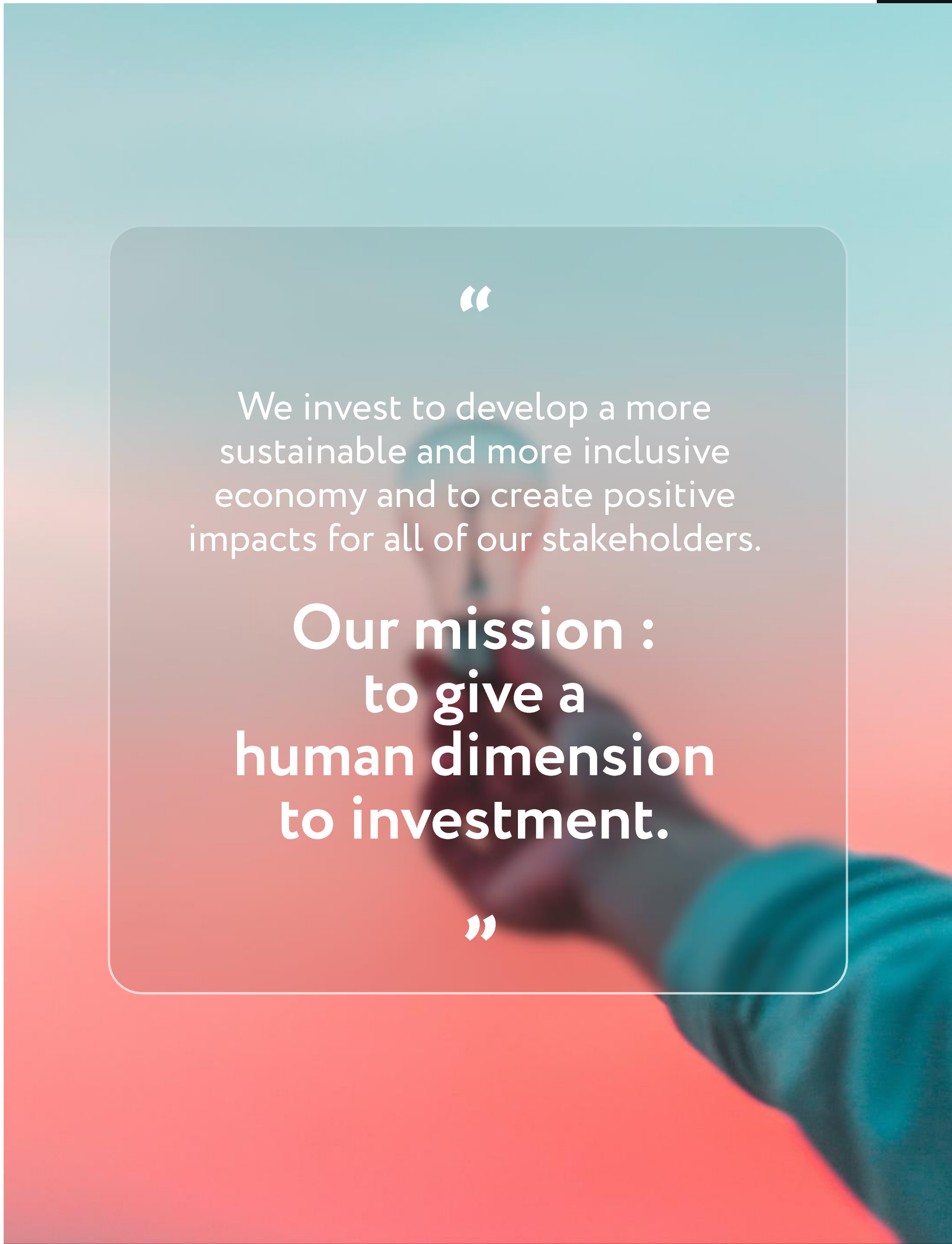
# 01 Responsible investing at the heart of our strategy

## 1.1 Our responsible investment mission

As a pioneer of responsible investing, Sycomore AM has built its mission on giving meaning to our clients' investments, which we do by creating **sustainable value that is shared over the long term.** We are convinced that only companies that fulfil genuine social and environmental needs will thrive in the future, driving a process of improvement that will ensure sustainable performance.

Among the **overarching goals** that we have set to achieve our mission, **two focus specifically on our impact investor approach**:

- **Measure and improve** the environmental and social contribution of our investments while communicating clearly and transparently with our clients.
- Continue with the **development** of our socially responsible investment offering, aimed at creating positive impacts and combining purpose and performance.



"We invest to develop a more sustainable and more inclusive economy and to create positive impacts for all of our stakeholders.

**Our mission : to give a human dimension to investment.**"

# 1.2 Our impact approach

To achieve our mission as an engaged investor, our approach is to seek positive impacts that emerge on **three levels**.

## Our intentionality

The stock selection and portfolio construction processes of our thematic funds are based on **specific criteria that reflect each fund's intention.** For example, the Sycomore Europe Eco Solutions fund, which aims to support companies that make a positive environmental contribution through their products and services, selects investments based on the measurement of their Net Environmental Contribution (NEC). More broadly, the development of our thematic SRI fund range reflects our intention, as an asset management company, to **contribute to a more sustainable and inclusive economy**.

## Measurements of the impact of our investments

Our goal is to **demonstrate our investments' contribution to a more sustainable and inclusive economy**. We are gradually developing our approach to impact measurement. For each fund, we disclose progress made towards targets for relevant non-financial indicators in monthly reports and an annual report. For example, we report on the impact of our investments using two metrics: the Net Environmental Contribution (NEC) and the Societal Contribution (SC) of the products and services of portfolio companies. For SRI funds, we also present the exposure of portfolio companies to the UN's **Sustainable Development Goals**.

## Our additionality

Additionality involves **identifying our contribution, as an investor, to the positive impacts generated by our investments**. As we operate mainly on listed markets, we rarely provide the new capital needed by companies to grow, and our additionality may therefore appear limited. However, through our investment choices and our shareholder engagement actions, we encourage better business practices and urge companies to improve the contribution of their products and services to solutions that meet today's social and environmental challenges.

**Shareholder engagement** takes the form of our individual dialogue with companies, the exercise of our voting rights and our participation in collaborative engagement initiatives. Although it is difficult to establish the connection between our engagement initiatives and improved company results, we are convinced of the importance of this **dialogue** and of the **collective activism** which we are a part of in supporting the development of more sustainable and more virtuous business models that focus more on sharing value with all stakeholders. This approach is rooted in our DNA as an active asset manager. As such, we monitor **progress made** by companies in the **areas for improvement** we communicate to them. We also define priority topics in line with our impact objectives.

In addition, **a share of the management fees** from three of our thematic SRI funds is **donated to non-profits** that generate positive impacts in line with each fund's approach. For example, the Sycomore Inclusive Jobs fund invests between 5% and 10% of its net assets in social and solidarity-based enterprises selected for their ability to create inclusive employment.

# 02 Integrating ESG into our funds

## 2.1 Systematic ESG integration for every asset class

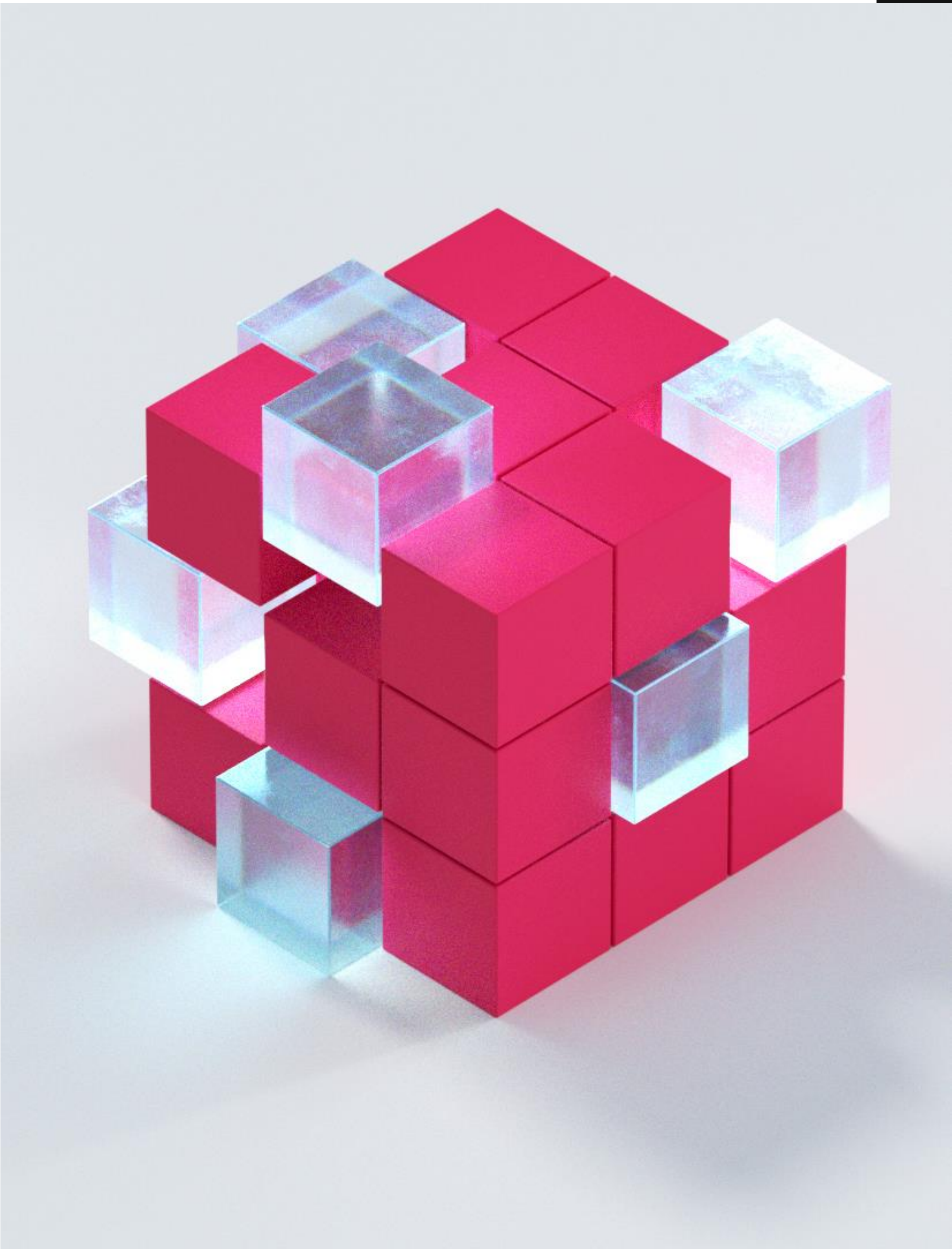
**Our ESG approach is global and integrated:** it aims to provide the best possible understanding of the risks and opportunities faced by the companies in our investment universe. In addition to the extent to which companies integrate sustainability issues into their operations, our model also **assesses the positioning of their products and services in meeting societal and environmental challenges.**

We have developed our own model for the fundamental analysis of companies: **SPICE**. It is structured around five groups of stakeholders:

**Society & Suppliers**
**People**
**Investors**
**Clients**
**Environment**

(The SPICE methodology is detailed in section 3.1.)

The companies in our various investment universes are all analysed using our SPICE fundamental analysis model, which incorporates sustainability issues. At the end of this analysis, a rating is assigned to each company, ranging from 1/5 for the lowest-rated to 5/5 for the highest-rated.



# 2.1 Systematic ESG **integration** for **every asset class**

Sustainability issues are systematically integrated into our analysis. They are taken into account **in different ways depending on the asset class:**

For **equity investments**, sustainability impacts **how a company's target stock price is calculated using two methodologies**:

- Using the **discounted cash flow (DCF) valuation method**, the sustainability rating has a +/- 40% impact on the risk coefficient (beta) used to calculate the weighted average cost of capital (WACC), which is the discount rate for future cash flows, thereby impacting the company's market value.
- Similarly, using a **comparable company analysis**, companies that have adopted the best sustainability practices and therefore have the best SPICE ratings benefit from a premium of up to +40% over the average of comparable companies, while a valuation discount of up to -40% is applied to companies with the highest exposure to sustainability risks.

For **bond investments, the SPICE rating also forms the basis for company analysis,** as it captures the company's resilience and therefore its ability to repay its debt. Fund manager-analysts can also adjust their main assumptions (revenue, profitability, provisions, tax rate, investments, etc.) based on figures relating to social and environmental issues. In short, **sustainability is integrated into the analysis of each company and has a direct bearing on our investment decisions**.

In addition to integrating the SPICE rating as previously described, **our SRI-certified funds and SRI mandates** apply **screens** to select companies meeting specific sustainability criteria.

For the evaluation of **sovereign issuers**, we have developed a **methodology that analyses specific ESG issues** (detailed in section 3.3). We also apply **positive screening** based on a set of criteria assessing the sustainable development and governance practices of the issuing country. These criteria fall into the following five categories: **the environment, governance, economic health, societal development and social inclusion**.

For our **managed fund offering**, our fund selection procedure incorporates **ESG criteria**: the selected fund managers must at least be signatories to the UN's Principles for Responsible Investment (PRI) or demonstrate that they implement an ESG integration strategy. For two managed fund mandates, 25% of the selected funds must have the French SRI label. For other mandates, all of the underlying funds are SRI-labelled.

The temporary **use of derivatives** for SRI-certified funds is authorised for the purposes of managing exposure or hedging risk, provided that the portfolio's ESG quality is not degraded.

# 2.2 **Sustainability risk management** in compliance with regulations

**Article 2 of the SFDR** defines a sustainability risk as:

*"An environmental, social or governance event or condition that, if it occurs, could cause an actual or potential material negative impact on the value of the investment."*

Sycomore AM considers the **principal adverse impacts (PAI)** of its investment decisions on sustainability factors, as defined by the Sustainable Finance Disclosure Regulation (SFDR). In accordance with the SFDR, Sycomore AM publishes its Principal Adverse Impact Policy on its website. Since 2023, it has also published an annual Principal Adverse Impact Statement.

Our **SPICE** model's criteria assess the **management of the risks and negative impacts** covered by the indicators listed in the Sustainable Financial Disclosure Regulation (SFDR), based on their materiality to each company's operations and geographical footprint and on the availability of relevant data. The SPICE model takes into account the two inextricably linked concepts of sustainability risks and impacts.

Through its **90 underlying criteria**, **SPICE** analyses the company's exposure to and management of sustainability risks, including risks relating to business ethics, taxes, human rights, working conditions, the subcontracting chain, environmental disasters, the ecological and energy transition, and personal data protection. All of these points are in line with **Article 3 of the SFDR, "Transparency of sustainability risk policies".**

Transition risks and physical risks are an integral part of the **E pillar (Environment) in our SPICE analysis.** Our Human Rights Policy follows the United Nations' Guiding Principles on Business and Human Rights and is the result of a consultation with all of our employees and external stakeholders, with the additional expertise of SILA Consulting. The policy establishes a framework to ensure the consideration of risks of human rights infringements in our investments.

Alongside the SPICE analysis, **we apply our SRI exclusion policy to limit fund exposure** to sustainability risks associated with controversial activities having significant adverse social or environmental impacts.

Under our policy, all our assets under management exclude **controversial weapons, coal, tobacco, pesticides, pornography and violations of the principles of the UN Global Compact**. For our SRI funds and mandates, additional exclusions apply: conventional and non-conventional oil and gas and, more broadly, carbon-based electricity generation. Most exclusions are determined by applying **strict criteria based on the exposure of company revenue**. Depending on the funds' investment strategy, our exclusion strategy can figure in a tolerance level, especially in energy. This is done to help support companies that have set robust transition plans. Also, as part of an improvement approach aimed at contributing to the goals of the Paris Agreement, we have defined a specific engagement programme for companies exposed to fossil fuels. Detailed definitions of the excluded activities, exclusion thresholds and the data sources used to establish the lists of exclusions can be found in our exclusion policy.

Sustainability risks undergo **specific checks run by the risk management teams.**

Given the nature of sustainability risks and the current state of academic research on the subject, the calculations of the impact on financial returns are not yet robust enough to be integrated effectively, and the result would run the risk of defeating its purpose. Consequently, we believe these risks should instead be managed by controlling **tail risks** and therefore limiting the fund's exposure to companies with the highest sustainability risks. This is why we have opted to apply the most comprehensive exclusion policy and selection criteria in the industry. **By only allowing companies with a SPICE rating above a minimum level to enter investment universes, we are convinced that, for now, ours is the best approach to managing sustainability risks.**

# 2.3 A **rigorous definition** of a sustainable investment

The SFDR defines a **sustainable investment** as follows:

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

# 2.3 A rigorous definition of a sustainable investment

**In 2022**, Sycomore AM established a harmonised, rigorous, and transparent definition of a sustainable investment to be used for every investment universe. The definition aligns with the one provided in the SFDR and has three main components:

1 **Identifying investments that make a positive contribution to the environmental and social issues listed in the definition.**

- Since 2015, Sycomore AM has been applying **two metrics** assessing the ability of a company's **products and services** to meet environmental and societal challenges, such as access to renewable energy, effective management of resources, and access to healthcare: the **Net Environmental Contribution** and the **Societal Contribution** of products and services.
- In partnership with The Good Economy, we have also developed a metric called **The Good Jobs Rating**, which assesses a company's ability, across its value chain, to create **long-term**, **high-quality** jobs that are **accessible to all,** especially in regions where the people need them most.
- Lastly, our **human capital assessment**, Happy@Work, has been in use since 2015 to identify the companies that provide a particularly **favourable environment for employee development**.

An investment is identified as having a positive contribution if it meets the minimum score for **at least one of the four metrics**.

2 **Avoiding investments that may cause significant adverse impacts**

We rely on our existing **exclusion** and **controversy management policies,** our **SPICE** fundamental analysis model based on **ESG** criteria, and our **Principal Adverse Impact** policy published in 2023.

3 **Ensuring the implementation of good governance practices**

An investment must meet a minimum score before it can be accepted as sustainable.

**This definition can be summarised as follows:**

**1 Makes a positive contribution**

**NEC ≥ +10%**
An effective measurement of overall environmental impact

or

**SOCIETAL CONTRIBUTION ≥ +30%**
An innovative societal impact metric

or

**THE GOOD JOBS RATING ≥ 55/100**
Job quantity, quality and geography

or

**HAPPY@WORK SCORE ≥ 4.5/5**
Fulfilment at work as seen by Sycomore AM

**2 Does no significant harm**

| | | | |
|---|---|---|---|
| Exclusion policy | Controversy severity 3/3 | SPICE rating < 3/5 | PAI* policy |

**3 Follows good governance practices**

Governance rating ≥ 2.5/5

*Principal Adverse Impact.

**Selectivity**

Fewer than 50% of the large European indexes, such as the EuroStoxx, are considered "sustainable" by these criteria. This level of selectivity aligns with the average for French asset management companies, according to a survey conducted by the Association Française de Gestion in February 2023[1].

[1] This level of selectivity aligns with the average for the French asset management companies that answered a survey conducted by the Association Française de Gestion in February 2023.

# 2.4 **Fund classification** according to the **SFDR**

In addition to its rigorous definition of a sustainable investment, as described earlier, Sycomore AM **applies the following rules to classify the funds in its range**:

### ARTICLE 9

Article 9 funds aim, as expressed through their investment objectives and company selection criteria, to **make a positive net impact on the environment and/or society.**
Most of our thematic SRI funds, as well as mandates with similar management strategies, are therefore classified as Article 9.

### ARTICLE 8

Article 8 funds use **selection criteria based on our SPICE rating** and other specific criteria depending on the fund philosophy. Most of these are multi-themed, SRI-labelled funds a with high minimum proportion of sustainable investments, i.e., between 50% and 70%.

### ARTICLE 6

Article **6 funds are the multi-asset funds of funds** in our managed fund offering that do not use ESG criteria.

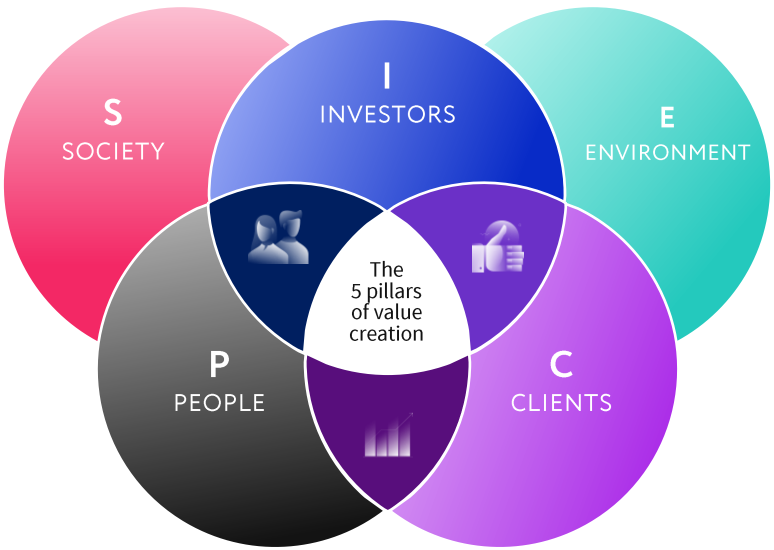
## Breakdown of funds by SFDR classification

| SFDR 2 classification | Amount and percentage of total assets | List of open-ended / multi-asset funds only |
|---|---|---|
| ART. 9 | €1,930 m<br>*27% of assets under management* | Sycomore Europe Eco Solutions<br>Sycomore Global Eco solutions<br>Sycomore Europe Happy@Work<br>Sycomore Global Happy@Work<br>Sycomore Social Impact<br>Sycomore Sustainable Tech<br>Sycomore Inclusive Jobs |
| ART. 8 | €4,870 m<br>*69% of assets under management* | Sycomore Sélection Responsable<br>Sycomore Francecap<br>Sycomore Sélection Midcap<br>Sycomore Sélection PME<br>Sycomore Sélection Crédit<br>Sycomore Next Generation<br>Sycomore Allocation Patrimoine<br>Sycomore Global Education<br>Sycomore Partners<br>Sycomore L/S Opportunities<br>Sycoyield 2026<br>SRI Ageing Population<br>SRI European Equity<br>Alpha Responsable Opportunités<br>Generali Vision Responsable Balanced<br>Generali Vision Responsable Moderate<br>Generali Vision Responsable Opportunity |
| ART. 6 | €315 m<br>*4% of assets under management* | Active Allocation<br>Ciflex Allocation<br>ESC Convictions<br>Gambetta Patrimoine<br>Kaolin Opportunities<br>Oxygène Patrimoine<br>Sésame Patrimoine<br>Sophia Valeurs Internationales<br>SP Flex Patrimoine |

# 03 Our **proprietary** ESG analysis **methodology**

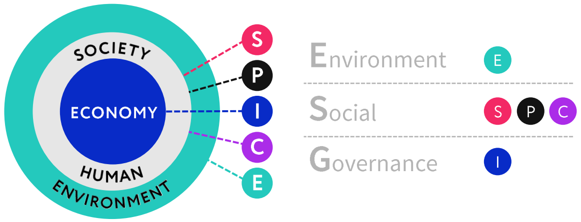
## 3.1 The SPICE model

The SPICE model is a global and integrated approach for analysing companies according to the European Commission's concept of double materiality: this means that it considers not only the **risks that could affect the company's business value,** but also the **negative social or environmental impacts of its business activities on its stakeholders**. The approach also examines how these two factors are interconnected.




### Sustainability correspondence

The illustration below shows **the correspondence between the three sustainable development pillars** (economy, human society, and environment), ESG issues, and the five stakeholder groups of our proprietary SPICE model.




### Weighting of the SPICE pillars

To accurately assess the fundamental risk carried by our investments, our investment team first analyses over 90 qualitative and quantitative criteria affecting a company's five stakeholder groups, using the SPICE model. At the end of this process, the company is assigned several ratings, on a scale of 1 to 5. The average of these scores, which are weighted according to the company's industry and business activities, constitutes its overall SPICE rating. The default weightings are as follows:


These weightings are adjusted to reflect the materiality of issues for each industry. For example, for companies in the consulting industry, the weighting for the People stakeholder group will be raised to 20%, while most companies in the manufacturing industry will have their Environment weighting increased to 20%. The weighting for the Investors score, which reflects governance practices and business model robustness, remains the same for every industry.

# 3.1 The SPICE model

## Society & suppliers

The **S** rating measures **company performance with regard to its suppliers and civil society**. The criteria that are analysed include:

**Societal contribution of products and services**: we review a company's revenue and assess the contribution of each of its activities to societal priorities, such as those defined in the **United Nations' 17 Sustainable Development Goals** (SDGs), which provide a common roadmap for public and private stakeholders to 2030. This review focuses on **three pillars: access & inclusion, health & safety and economic & human progress**.

**Societal contribution as an employer**: using the Good Jobs Rating, a metric developed in partnership with The Good Economy, we assess a company's ability to create sustainable and high-quality job opportunities for all, especially in countries or regions where employment is limited and therefore essential to attaining sustainable and inclusive growth.

**Corporate citizenship**: we value companies that have developed a positive social impact mission that is both clearly defined and embedded into their strategy. The company must also meet its primary obligations to society by **protecting human rights**, **implementing a responsible tax policy to help finance local economies**, and **fighting corruption**. Our analysis also considers positive externalities, for example, by placing value on sustainable philanthropy or participation in initiatives supporting sustainable development.

**Subcontracting chain**: we analyse a company's control over its subcontracting chain, its maintenance of balanced supplier relationships, and associated risks. We value companies that have set up effective responsible sourcing policies and that engage in dialogue with their subcontractors, to help them improve their own sustainable development practices.

## People

The **P** rating focuses on **a company's employees** and its **human capital management.** The assessment of the People pillar includes the following criteria:

**Consideration of human capital issues**: we value companies whose management embed human capital considerations into strategy and make efforts to cultivate employee fulfilment. In industries with high risk exposure, we also assess a company's culture and its performance in terms of safety at work, including for temporary and subcontractor staff, which is a meaningful indicator of the quality of management at grassroots level.

**Happy@Work environment**: this part of the analysis process assesses a company's ability to create a work environment that fosters employee development. We believe that this is achieved where there is a strong corporate culture that empowers employees while giving meaning to their work. We also value clearly defined organisations, training initiatives, support for job mobility, quality labour relations and working conditions, equal opportunities, non-discrimination, and employee profit-sharing.

**Measurement of employee engagement**: we place importance on measuring employee engagement, through surveys, for example. Surveys help to pinpoint areas of risk or conflict, to take corrective action suited to the local context, and to measure changes in employee engagement over time.

# 3.1 The SPICE model

## INVESTORS

The **I** rating focuses on the **relations between companies and their shareholders. The rating is assigned based on a thorough analysis of a company's shareholder and legal structure and the interactions and power relations among various groups:** its management, its shareholders and their representatives, and its directors. Our research covers the following aspects:

**Business model**: we analyse the **strength** of a company's business model based on its income structure, competitive positioning, growth drivers – such as innovation and external growth opportunities – and ability to create value.

**Governance**: we assess the quality of a company's governance **based on its management team and its board of directors or supervisory board**. We look for a balance of power and the effective execution of the company's strategy. An important component of our analysis is to examine whether the interests of all stakeholders are taken into account, through an equitable distribution of the value created and the embedding of sustainable development into the company's strategy. We therefore analyse the quality of the company's financial communications and assess the alignment of management's interests with those of the shareholders by examining the company's shareholder structure, executive shareholding, and remuneration policy. We also analyse the company's capital structure to assess bondholder risk.

## CLIENTS

The **C** rating focuses on the **company's clients as stakeholders.** We take the following criteria into account:

**Characteristics of the company's offering**: our objective is to **assess the relevance and consistency of the company's sales strategy relative to its offering and target audience**. We identify the company's competitive positioning by comparing its products and services and its brands to those of its competitors and analysing the quality of its marketing, its distribution channels, and the digital-readiness of its products and services.

**Client risks**: we identify and measure the risks associated with the company's products and services for its clients. We examine the **cybersecurity risks** that weigh on the company and its ability to protect its clients' digital rights. We analyse the company's ability to **maintain a strong brand image or improve it**. We value companies that guarantee the **safety of their products**.

**Client relations**: we also assess the quality of the company's products and services by looking at the tools and resources it deploys for **customer service**. We investigate how well companies listen to their clients' needs and satisfy them. We prefer companies that seek to **diversify their client base** while fostering **long-term relations** with their customers.

# 3.1 The SPICE model

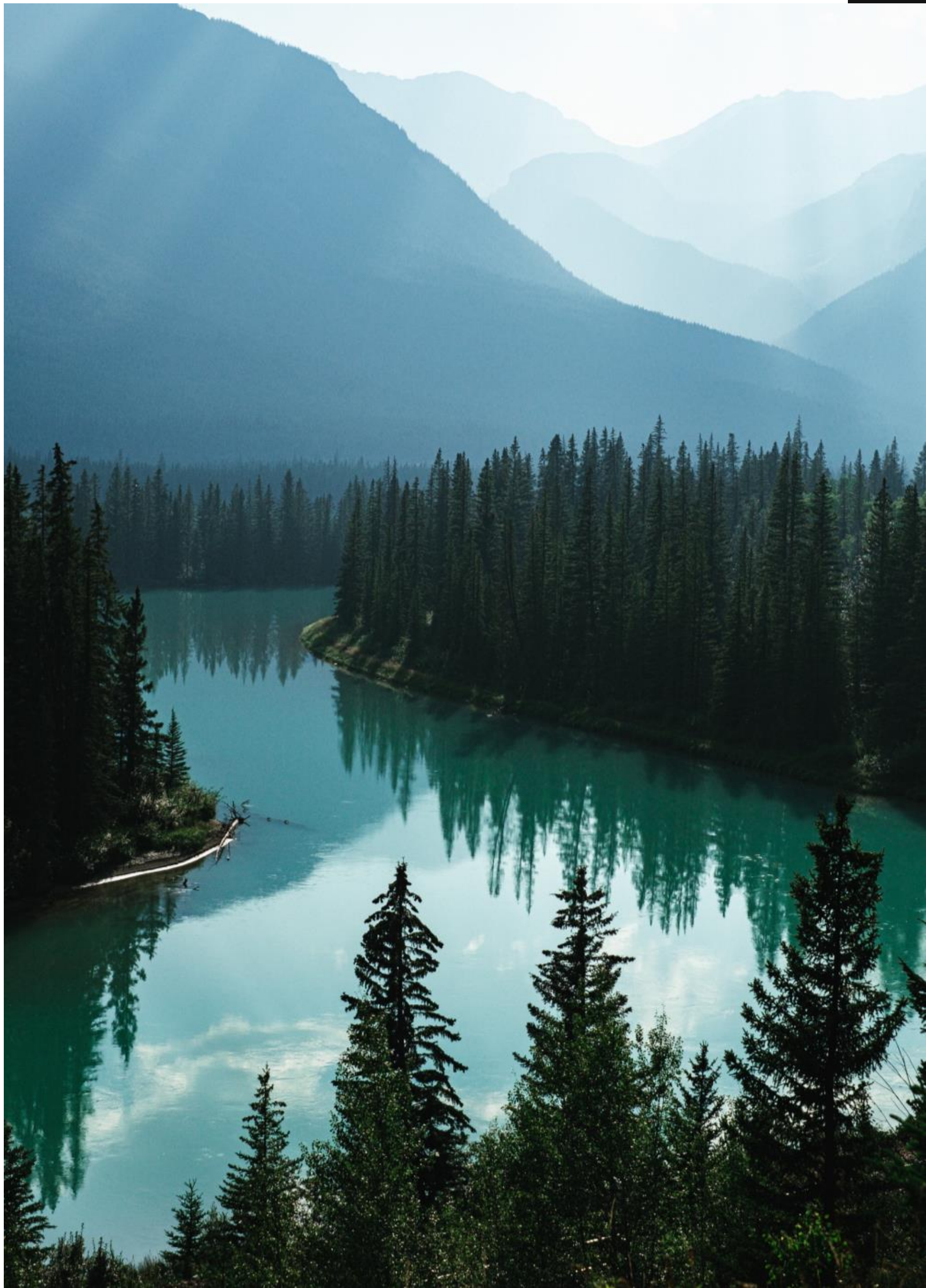
## Environment

The **E** rating assesses **how the company stands with regards to natural capital.** It considers the in-house management of environmental aspects and the positive or negative externalities of the company's business model.

**Integration of environmental issues**: we analyse the company's purpose from an environmental perspective, taking into consideration the management's goals, how well environmental issues are integrated into the company's strategy, the corporate culture, the company's mode of operation, and the robustness of its environmental risk management at the company level. We also assess the company's environmental footprint, the actual performance of its sites and operations, and the goals it has set and the means it deploys to limit their adverse environmental impacts.

**Transition risk**: we assess the company's environmental impacts using a Life Cycle Analysis (LCA) approach that incorporates upstream (supply chain) and downstream impacts (use of products and services). We consider direct and indirect impacts, both positive and negative. This assessment has its grounding in the **Net Environmental Contribution** (NEC). For each business activity, this indicator measures the contribution of the company's business model and its compatibility with the energy and environmental transition and global warming targets. The NEC ranges from -100% for activities that are highly destructive of natural capital to +100% for activities with a highly positive net environmental impact, which provide clear responses to the environmental transition and the climate challenge. Beyond the snapshot view provided by the NEC, we also examine the company's trajectory and its alignment, or lack thereof, with the Paris Agreement and an environmentally sustainable economy.

**Physical risks**: we analyse the company's exposure to **chronic and/or extreme** physical risks associated with climate change and other disruptions to the ecosystem. This analysis covers not only a company's operations and assets, but also its upstream and downstream value chain.



# 3.2 Active management of **controversies**

**Sycomore AM monitors controversies that affect the companies in our investment universe, drawing upon various external data sources to do so**. Since 2017, **MSCI ESG Research** has provided ESG controversy analysis for most of the companies in our **Sycovalo** research universe. This analysis helps to identify potential discrepancies between a company's statements and its actions, areas of weakness, or new risks. It supplements our own ESG analysis of a company and helps us to detect any events that could decrease its market value. Engagement initiatives are frequently taken following the identification of a controversy. The company's response to our initiatives is taken into account in assessing the severity of the controversy affecting it.

**Controversies that are considered to be very severe can lead to exclusion from the fund**, after consultation with the ESG investment team and approval by Sycomore AM's CEO (managers are allowed up to three months to best time the portfolio exit for clients).

**The monitoring of ESG controversies is carried out daily**. The investment team is particularly sensitive to the most severe controversies and is responsible for entering these into the system as soon as they have been identified, either from our daily media watch or from warnings issued by external analysts. Furthermore, the controversies analysed by MSCI ESG Research are imported into our Sycovalo analysis tool on a weekly basis. These imports include both new and ongoing controversy cases and are matched to the relevant company and SPICE criteria.

**OUR FOUR CONTROVERSY RATING CRITERIA (ON A SCALE OF 0 TO -3)**

**CONTROVERSY SEVERITY**

*What is the impact of the harm caused by the controversy (for example, did a fatal accident occur or was a flaw discovered in the workplace safety policy)?*
*What is the scope of the controversy's impact?*
*Does it concern just one entity, business or project, or does it affect the entire company?*

**CONTROVERSY STATUS**

*Is the controversy still active or has it been resolved?*
*Is legal action still underway?*
*Have fines or compensation been paid?*

**CONTROVERSY TYPE**

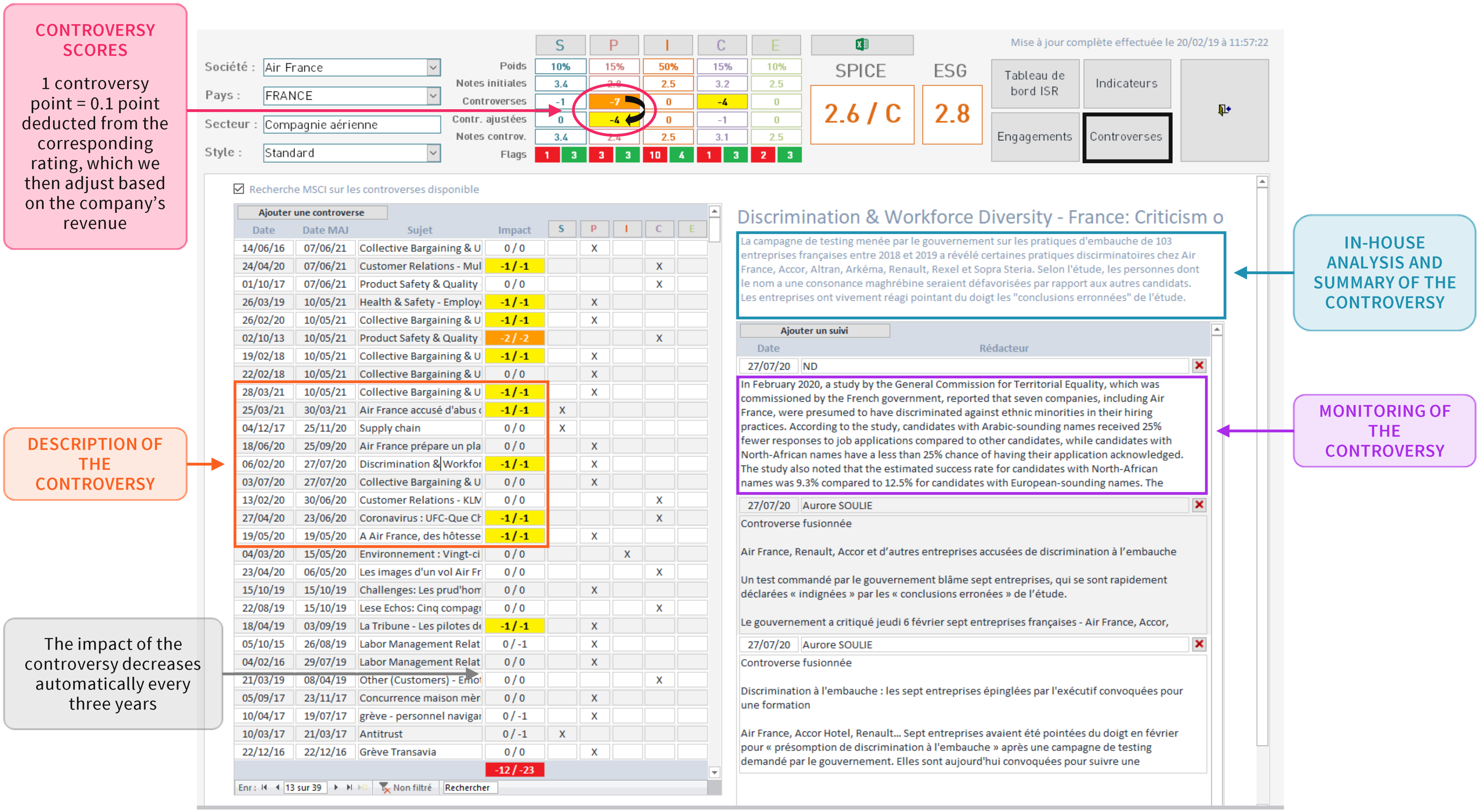
*Does the controversy stem from a structural problem in the organisation, or, for example, from misfortune or a malicious act committed by an employee?*
*Could the controversial event have been avoided by establishing better processes?*

**ATTITUDE & REACTIONS OF THE COMPANY INVOLVED**

*Has the company made a statement on the issue?*
*What action does it intend to take to remedy the situation?*

## 3.2 Active management of controversies

**The controversy score has a direct bearing on the company's SPICE rating**: every controversy point lowers the relevant stakeholder group's rating by 0.1 point, with a tapering mechanism after three years. To limit the bias due to the company's size, using the results of a study of the relationship between company revenue size and controversy points, the impact of controversy points on the SPICE rating is now adjusted based on the company's total revenue.



# 3.3 Analysis of **sovereign issuers**

We have developed a **methodology for analysing sovereign issuers**. First, **two exclusionary screens** are applied:

1 **We exclude countries that are not signatories of the Charter of the United Nations.** Initially adopted by 51 Member States on 26 April 1945, the charter lays down the UN's objectives, principles and rules of procedure. As signatories, the countries commit to promoting intergovernmental cooperation in order to maintain international peace and security. The charter is based on the people's self-determination rights and acknowledges fundamental human rights and liberties.

2 **We also exclude countries that are targeted by international financial sanctions.** More specifically, these include countries targeted by sanctions from the Office of Financial Assets Control (OFAC) or the Office of Financial Sanctions Implementation (OFSI), countries subject to restrictive financial or trade measures implemented by the UN or the EU Council, countries on the EU list of non-cooperative jurisdictions for tax purposes, and countries sanctioned by the Financial Action Task Force (FATF).

Our analysis methodology for sovereign issuers uses multiple criteria to **assess a country's sustainable development and governance practices.** These criteria are sorted into **five categories and weighted in the following manner**:

- **Environment:** COEFFICIENT **2**
- **Governance:** COEFFICIENT **1**
- **Economic health:** COEFFICIENT **1**
- **Societal development:** COEFFICIENT **2**
- **Social inclusion:** COEFFICIENT **2**

After the criteria are weighted, a **final score on a scale of 1 to 5** is calculated. Each category is assessed based on **five indicators**. A few examples of indicators for each category follow:

- **Environment:** the share of renewable energy in the country's energy mix and its overshoot day are two of the five indicators used. Our aim is to promote responsible and sustainable ecological footprints.
- **Governance:** the type of political regime, press freedom, and respect for human rights are three of the five indicators used to assess pluralism, freedom of expression, religious freedom and civil liberties.
- **Economic health:** the Gini coefficient is used to assess income inequality, and changes in unemployment rate are used to assess labour market resilience. The selected indicators evaluate not only economic performance but also economic fairness.
- **Society:** we consider the following two sets of criteria:

→ **Societal development:** The World Justice Project's index measuring adherence to the rule of law, national healthcare expenditure, and the food security index are used to assess how well a country addresses two fundamental social needs: access to healthcare and justice.

→ **Social inclusion**: the Human Development Index, education level, gender inequality and life expectancy are four of the five indicators used to assess not only the economic distribution of wealth, but also social and cultural equality.

Each indicator used in our analysis methodology for sovereign issuers can be **linked to one of the 17 Sustainable Development Goals** (SDGs) set by the UN in its **2030 Agenda**. These links ensure that our analysis **covers a maximum of priority issues,** such as the climate, biodiversity, energy, water, poverty, gender equality, economic prosperity, peace, agriculture, and education. Our methodology is not designed to be exhaustive, since our choice of indicators is largely dependent on available data and consistency with respect to our initial investment universe. Therefore, **our methodology covers the following SDGs and enables us to assess countries' alignment with certain priorities identified by the United Nations**:

# 04 The **means** allocated to our ESG analysis

## 4.1 High-level **governance of sustainability** issues

**Émeric Préaubert**
Chairman and CEO

**Christine Kolb**
Head of Strategy and Business Development

**Cyril Charlot**
Deputy CEO

**Denis Panel**
CEO

**Sycomore AM's SRI approach forms the core of our mission and strategy.** It is embodied at the highest level of the organisation, from its beginnings by the three co-founding partners, **Émeric Préaubert, Christine Kolb and Cyril Charlot,** and, since April 2023, by CEO **Denis Panel**.

**Anne-Claire Imperiale**, Head of Sustainability, is **in charge of ESG research**. She steers the development and promotion of Sycomore AM's SRI policy and oversees the work of the ESG analysts. She also works to continuously improve the quality and efficiency of auditing tools and ensures that the investable universe of managed portfolios is effectively covered. She submits the annual individual qualitative and quantitative key performance indicators (KPIs) of the ESG analysis team members to the CEO for validation, along with proposed fixed and variable remuneration budgets, and approves the external service providers involved in ESG research activities. Anne-Claire Imperiale also makes recommendations to the CEO, for validation, for changes to the policies underlying Sycomore AM's SRI approach (ESG integration, shareholder engagement, exclusion and voting policies, for example). These documents are updated every year.

## 4.2 **Remuneration** policy

In line with our remuneration policy and Article 5 of the SFDR, **"Transparency of remuneration policies in relation to the integration of sustainability risks"**, the remuneration of Sycomore AM staff consists of at least the following components:

- **Fixed remuneration**
- **Variable remuneration,** which rewards staff's individual and collective performance
- **Additional schemes,** which are part of a general, non-discretionary, company-wide policy that is either in effect or to be effective, such as profit-sharing, company savings plans, and individual or group retirement savings plans or funds

**An appropriate balance is established between the fixed and variable components of the total remuneration awarded to staff members.** At the end of each financial year, Sycomore AM determines the added value created by the company to ensure fair after-tax distribution of income between salaried employees, on the one hand, and, on the other hand, the company and its shareholders, to finance the company's growth.

Once this total remuneration budget has been determined, **all staff members undergo an annual review** in January, after which a theoretical amount of individual variable remuneration is calculated, within the limits of the total variable remuneration budget. For all staff members, this assessment is based on pre-determined key performance indicators proposed by team managers and approved by an extended management committee, taking into account Sycomore AM's status as a certified B corporation.

## 4.3 Our **expertise**

The **investment team's** responsibilities include making investments and managing them day-to-day on behalf of our clients, assessing companies and analysing them using our SPICE methodology, monitoring events that could affect a company's performance (current events, controversies, etc.), dialoguing with companies (engagement), exercising our voting rights at shareholder meetings and measuring the overall (financial and ESG) performance of our investments.

Reporting to the Head of Sustainability, the **ESG research team** develops sectoral and thematic ESG expertise to be used in investment analysis and selection, conducts engagement initiatives, analyses controversies, and exercises voting rights.

Furthermore, for each of our funds, **an ESG specialist assists the investment team** in monitoring the fund's sustainability objective and performance, implementing regulatory and contractual ESG criteria, and producing ESG reports.

**In-house training** is regularly provided by the ESG research team to raise the awareness of all staff about ESG and SPICE issues and how they are integrated into fundamental analysis. These trainings are delivered in a variety of formats to suit different needs:

- **General training**: General courses are conducted, for example for new hires, to present Sycomore AM's SRI approach and, more specifically, our SPICE analysis methodology and incorporation of SPICE into valuations.
- **Detailed training**: Courses focusing on specific topics, such as one of the SPICE criteria, are regularly held for the investment team.
- **Individual training**: We also encourage one-on-one sessions between experienced ESG analysts and other analysts.

For more information on the training provided in the previous financial year, see our PRI report on our "Our ESG approach" page.

## 4.4 Our **data sources**

**The investment team relies on the following sources and partners to carry out the company's mission**. Moody's ESG research is used by our fund managers and analysts to support their SPICE analyses. However, we do not directly use the consolidated ESG scores established by Moody's ESG and **maintain our own assessments** obtained using our proprietary model.

ISS: expertise on voting at shareholder meetings
MSCI: controversy monitoring and exclusion analysis
Moody' ESG: ESG research
NEC Initiative: access and training on the NEC
Brokers: access and training on the NEC

**PUBLICATIONS**
annual reports, sustainability reports, etc.

S P I C E
**ANALYSIS**
**AND RELATIONS WITH COMPANIES**

**MEETINGS WITH COMPANIES**
conferences, earnings presentations, targeted interviews, on-site visits

NGOs
Press, market intelligence, expert networks
Trucost: exclusion analysis and carbon footprint
Iceberg Data Lab: environmental data
Consultants: R&D projects(I Care, Quantis, The Good Economy)

Experts we work with to conduct our analyses
Company information that we analyse directly

# 4.5 **Sycovalo,** a unique resource shared by all

The strength of our asset management is rooted in the **collective nature** of our research and monitoring of the companies in our investment universe, using our proprietary analysis and valuation tool, Sycovalo. This shared tool is the **backbone of our investment process**.

Sycovalo stores **the investment team's collective memory**, since it contains a vast pool of **historical** and **analytical** information from which each fund manager-analyst sources investment ideas to support their strategy.

Updated daily, Sycovalo enables users to **compile, extract and archive a wide range of data on each company researched**:

**Quantitative financial data:** 20 years of account statement history, three years of forecasts, comparisons to the consensus, valuation ratios, profitability levels, growth rates, etc.

**Qualitative data and ESG information**: minutes from interviews and on-site visits, analyses of competitive positioning, outlook and growth, assessments of performance with regard to stakeholders, using the SPICE analysis (ESG indicators, controversies and exclusions)

**The proprietary nature of our tool gives us a great deal of flexibility in use**: any change in our analysis methodology can be quickly reflected in the tool. Our metrics for a company's environmental and societal contributions as well as its sustainability are all formally defined in the tool.

# 05 Internal and external **controls**

## 5.1 Level 1 **controls**

**Two first-level controls** are conducted:

1. **Compliance with the fund's selection and exclusion criteria undergo pre-trade controls** that are configured into our trading order tool. These controls are configured based on the criteria set out in the fund prospectus.

2. On a daily basis, **the Risk Management department controls for compliance with all ESG criteria**. This control covers the following items:
   - Verification of compliance with the **fund's ESG selection criteria**
   - Verification of compliance with the **exclusion policy**
   - Verification of coverage of the **ESG analysis**
   - Verification of compliance with the **selectivity percentage**, if applicable
   - Verification of the **outperformance** of two indicators and the **data coverage ratios** for these two indicators, as applicable.

In the event of a **non-conformity**, a warning summarising the control items and the observed gaps is sent to the relevant investment team. The managers then have five working days to explain the non-conformity to the Risk Management and Internal Control departments and communicate any proposed corrective actions.

## 5.2 **Level 2 internal** controls

A second-level control is carried out **every six months** by the internal control team. It verifies each fund's compliance with the ESG criteria set out in its legal documentation, the effective implementation of first-level controls and compliance with the ESG information communicated to clients. Level 2 controls are also carried out quarterly to verify compliance with the requirements of any labels or certifications obtained by the managed funds.

## 5.3 **Level 3 periodic** controls and **audits**

Sycomore AM has selected an outside firm to conduct regular audits on a number of themes (which include compliance with ESG and SRI criteria) according to a schedule set out in a three-year calendar. This same firm can also be called upon if Sycomore AM deems that an additional or a more focused audit is required.

Sycomore AM has also outsourced the internal audit function to Assicurazioni Generali's Group Audit. In accordance with a multi-year plan, they conduct audits of the group's various structures.

## 5.4 **External** audits

Certification processes in France, Austria, Belgium and Germany require verification by an independent third party of SRI investment procedures, their effective implementation, and portfolio compliance. These external audits are conducted annually.

# 06 Shareholder engagement **policy**

Shareholder engagement is about **driving companies to make structural improvements to their sustainability practices, by articulating areas for improvement through constructive dialogue and long-term monitoring**. This is a key feature of putting our mission into action and, above all, achieving our overarching goal of measuring and increasing the social and environmental contributions of our investments.

Our approach to shareholder engagement is detailed in our shareholder engagement policy and our voting policy.

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