Responsible Investment Policy

- IVO Capital Partners -

<u>Partner's foreword:</u>

« As we end this decade, climate concerns are more topical than ever. Environmental and social impacts are as crucial for us individuals as they are for corporate performance.

As an asset manager, we have to consider all the factors that can impact the return on our investments. ESG criteria have an impact on the risk-adjusted return of corporate bonds. Costs and risks associated with the ESG transition can have a direct impact on key metrics in credit analysis, such as capital expenditure, indebtedness, refinancing opportunities, cost and access to capital.

IVO wishes to use its asset management activities to drive economic growth in emerging countries and to contribute to global growth towards sustainable development. This growth is as important for the financial performance of companies as it is for our clients.

This new reflection allows for the broadening of our vision, a deeper knowledge of companies and a more active management of our portfolio. Integrating new investment criteria will lead us to make different decisions based on risk assessment.

In order to implement a responsible approach, IVO Capital Partners became a signatory to the United Nations charter, "Principles for Responsible Investment" (PRI) in February 2017.

We first integrate ESG into our investment policy with a sector-based exclusion policy, aimed at leaving out companies that have not implemented a "Responsible Policy" and operate in controversial sectors. Secondly, we crafted an integration policy that includes ESG indicators in company analysis when making investment decisions and monitoring our portfolio. This integration policy is carried out through our partnerships with external service providers such as Sustainalytics and Trucost, as well as our internal research. Finally, we are engaging with companies with the help of Sustainalytics, to drive them to a better understanding and management of ESG risks. »

Michael Israel, Managing Partner at Capital Partners

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I. Introduction

1) IVO Capital Partners investment strategy

As an asset manager, IVO Capital Partners focuses on listed and private debt and mainly invests in the following instruments:

- Listed fixed income or assimilated from private or public issuers;
- Litigation finance-related securities including loans, debt instruments, unlisted or listed shares of vehicles involved in litigation finance.

The investment strategy and responsible policy presented in this document apply to the first above-mentioned asset class only. As the very specific characteristics of litigation finance require a dedicated expertise to conduct ESG analysis, we don't apply ESG criteria to this asset class yet.

The funds IVO Fixed Income EUR UCITS, IVO Fixed Income Short Duration UCITS and IVO Global Opportunities UCITS follow a Global High Yield bond strategy with a **focus on emerging markets**, employing a fundamental approach to capitalize on mismatches between bond yields and the intrinsic credit quality of their issuers. **The strategy employs a high conviction, benchmark-agnostic approach** to explore the entire spectrum of the listed universe within the bond market, without geographic constraints.

Our investment strategy can be summed up as investing in worldwide fixed income following a **"bad country, good company"** or **"bad sector, good company"** approach in order to deliver a superior yield to traditional high yield products with a lower risk. As a consequence, **a large part of our investment universe is represented by emerging markets issuers** as macroeconomic/sovereign debt crisis are more frequent in those markets. This approach differs from traditional high yield management strategies which are generally focusing on "leveraged companies, good countries" instead.

2) Investment process

When a company issues a bond that may be of interest to us, we conduct an in-depth analysis of its business. This begins with a study of the company's ownership, notably the reputation and the "reliability" of its shareholders and managers. Then, we study the market in which the company operates at length, analyzing its trends, main players and determinants. The next step is a company-specific financial analysis, with a dynamic study of its sector indicators, its liquidity level and its debt structure. Finally, we focus on the terms and conditions (seniority, main covenants) of the issued bond.

We also conduct frequent interviews with the management in order to ask additional questions and have a better understanding of the business model.

We favor companies that we believe are able to withstand potential macroeconomic shocks: low debt, strong asset base, stable and relatively predictable cash flows, high dollar exposure.

Taken together, these elements of analysis allow us to determine whether the risk-adjusted return is attractive enough to invest in the company.

As part of this exhaustive financial analysis and due diligence process, IVO Capital Partners systematically integrates the study of environmental, social and governance risks.

3) Why do we integrate ESG in our investment strategy?

As an investment fund and asset manager, our mission is to provide our investors with above-market returns while respecting our fiduciary obligations. We believe that responsible investing and the integration of environmental, social and governance (ESG) risks into our investment analysis are an integral part of these obligations.

The issuers in our universe frequently face environmental, social and governance issues. ESG risk often results in a sharp drop in the price of a bond, restructuring or even default.

The environmental pillar of our responsible investment policy aims at encouraging and supporting companies in managing environmental risks associated with their business and in transitioning towards a sustainable activity. Following the COP21, the signature of the Paris agreement called on the world's major companies to take action to limit their CO_2 emissions, in order to limit global warming to 2 degrees by the end of the century compared to the pre-industrial average. However, the actions taken are still insufficient and difficult to access for smaller companies and industrializing countries. For example, oil companies in our universe are increasingly interested in the post-oil era: they must develop low-carbon technologies to reduce their greenhouse gas emissions and promote the use of environmentally friendly biodegradable products.

We believe that the integration of social factors improves our decision-making process by measuring companies' exposure to risks related to managing their relationship with employees, customers, stakeholders and local communities. The social factor can relate to the prevention of work-related injuries that can have highly prejudicial consequences on a bond. Companies operating in the gambling industry also face regulations aimed at protecting individuals from addictive behavior. Latin America-based companies producing proteins, sugar and ethanol are also affected by challenges linked to animal welfare, deforestation and indigenous rights protection. Other social considerations have an impact on bond prices and yields, such as respect towards local communities or the fight against child labor.

As an asset manager, ensuring the companies strength governance-wise is paramount in order to minimize the risk of announcements and disclosures that could affect the price of portfolio companies. Governance analysis is of great importance to IVO Capital Partners, all the more so in emerging countries where rules are less strict or less complied with than in developed countries. Corruption scandals or a lack of independence of the board can have a significant impact on bond prices.

IVO values two pillars in the corporate governance system:

- Transparency: the board of directors and management of the company must be willing to share information openly when asked, answer our questions, explain their decisions and build a trustworthy relationship.
- Integrity of the management and board of directors: the shareholders and managers of the company must be reliable, and IVO is committed to checking that there are no past events of corruption or scandals related to shareholders or management before investing.

ESG risk analysis therefore contributes to our objective of improving the risk-adjusted return of our portfolios over the long term. We identified three levers in order to integrate ESG into our investment strategy:

- **Exclude the companies and sectors subject to ESG controversies from our investment universe**;
- **Assess the quality of companies by integrating the ESG risks and opportunities** that affect them into our investment decisions and monitoring;
- **Engage with our portfolio companies** to help them implement good ESG practices.

4) Our ESG information sources

In order to implement our responsible investment policy, we use a variety of information sources and external service providers. We aim for the most comprehensive approach possible, and we want to capitalize on the expertise and knowledge of each of our partners.

- **Sustainalytics:**

a. Sustainalytics products overview

Sustainalytics is one of the main ESG rating and research companies, with 600 employees and more than 700 clients. It is owned by Morningstar, PGGM, ABN AMRO MeesPierson and Renewal Partners. Its main customers are banks or asset and fortune managers such as Blackrock, Amundi Asset Management, Goldman Sachs Asset Management, or green bonds issuers like Apple or Starbucks Coffee. Sustainalytics works in collaboration with indexes like S&P, JP Morgan or platforms like Morningstar.

Sustainalytics offers several responsible investment services :

- Negative selection: exclusion of companies with weak ESG practices or involved in controversial industries;
- Norms-based selection: identification of companies that do not comply with international regulations and laws;
- Positive selection: investment in companies with the highest ESG quality;
- Integration: incorporation of ESG analysis into the investment and valuation process to improve the risk-return profile of an investment portfolio;
- Engagement: collaborative and direct engagement, proxy voting on ESG considerations;
- Thematic and impact investment : targeted investment in companies whose aim is to resolve sustainable development challenges.

b. ESG risk rating

Sustainalytics' ESG risk rating measures a company's exposure to ESG risks and its management of financially material ESG risks. The company's exposure is determined by the industry in which it operates and its internal characteristics. An ESG issue is considered material if the company is sufficiently exposed to it. For example, corporate governance is material for every company. Companies are then classified into five risk categories: negligible, low, medium, high and severe.

Sustainalytics first measures the company's global exposure to ESG risks. A distinction is then made between manageable and **unmanageable risks**: for example, an oil company will always face carbon-related risks unless it changes its business model. The company addresses a portion of the manageable risk through specific policies and programs. The remainder of the unmanaged risk constitutes **the management gap**. **The ESG risk rating adds up the unmanageable risk and the management gap.**

Sustainalytics relies on an annual review of company data, news, industry and NGO reports, comparables and company feedbacks, and a daily monitoring of company-related news.

c. <u>Controversies research</u>

Sustainalytics tracks approximately 83 000 sources worldwide with a coverage of more than 15 000 issuers. Incidents (lawsuits or oil spills for example) are identified and requalified as controversies. The controversy is then rated from 1 to 5 (low, moderate, significant, strong, severe). Finally, Sustainalytics estimates the evolution of the rating over the next 12 months based on several criteria such as risk factors and management systems.

- **<u>Trucost:</u>**

Founded in 2000, Trucost is owned by S&P and employs 100 persons, including 50 analysts dedicated to environmental research. In France, around 70% of reports published by institutional investors are based on Trucost services, tools and data, which have a coverage of over 15 000 listed companies, 170 countries and some unlisted companies. Trucost relies on S&P tools and financial data and give access to the underlying data in Excel format, with a team available 24 hours a day, every day of the week.

Each year since 2005, Trucost analyzes all the direct and indirect carbon and environmental impacts of the issuers (companies and countries), over the complete range of industries in which the issuer operates. This includes for example the energy consumed by companies in the IT sector, mineral and water resources used by industrial sectors or waste produced by several sectors.

Trucost analysts go over the following steps when analyzing an issuer:

1) Collection of financial and production data, then segmentation by Trucost / NACE segment. Estimation of all the environmental impacts with an estimation model;
2) Collection of carbon and environmental resources data reported by issuers;
3) Comparison / Verification of the data;
4) Dialogue with the issuer;
5) Provision of data to Trucost's financial institution clients.

Trucost uses the following sources: annual reports, data by assets communicated by the issuer and the regulator and annual interviews with companies.

- **<u>Rating agencies:</u>**

We rely on Moody's ESG research, which regularly publishes notes and reports on the environment, governance, social issues and various themes (for example, the growth of electric vehicles in California, the environmental impact of green bonds, etc.).

- **<u>Brokers notes:</u>**

Finally, some brokers regularly publish ESG research, such as DNB to which IVO Capital Partners suscribes.

Our ESG policy relies on four main pillars: exclusion, integration, engagement, and the promotion of responsible investment.

II. Exclusion

The first pillar of our responsible investment policy is the exclusion of companies involved in morally or ethically controversial activities. We thus ensure the exclusion of companies operating in the following sectors.

- **Weapons and controversial weapons:**

Controversial weapons have been condemned by several international conventions. As a consequence, we totally exclude companies involved in the development, production, stockpiling, use or transport of cluster munitions (prohibited by the Convention on Cluster Munitions), anti-personnel mines (prohibited by the Ottawa Treaty) and chemical, biological or nuclear weapons (respectively prohibited by the Chemical Weapons Convention, the Biological Weapons Convention and the Nuclear Weapon Ban Treaty recently passed in 2017).

The conventional weapons industry is also risky as it favors arms trafficking and the resurgence of armed conflicts. We thus exclude companies who derive more than 20% of their revenues from weapons.

- **Tobacco:**

Tobacco causes health issues and kills up to half of its users for a total of 7 million people each year from which 890 000 are non-smokers being exposed to second-hand smoke (WHO). A study realized in 2012 in both high income and middle to low income countries have evaluated the amount of healthcare expenditure due to smoking-attributable diseases at US$422 billion (Goodchild, Nargis, Tursan d'Espaignet). We exclude all companies with more than 5% of revenues drawn from the tobacco industry, including producers and distributors, and no responsible policy regarding health and environment. For instance, the strategic plan of a current big player of the industry is to withdraw its activities from tobacco to invest in healthier alternatives. As a consequence, we don't exclude the possibility to invest in companies following the same scheme.

- **Gambling:**

Gambling may have negative impact on players who suffer from compulsive behavior and lead to bankruptcy, social issues with their employer and family, use of illicit products and psychologic troubles. We exclude all companies from the gambling industry (casinos, online gambling websites, TV shows, bookmakers) with no responsible policy regarding promotion, advertisement, adequate employee training and client support initiatives.

- **Palm oil and paper pulp:**

Palm oil and paper pulp production are a threat to biodiversity and carbon sequestration by causing deforestation. Ultimately, they can participate to enhance global warming if production is not managed in a sustainable way. As a consequence, we exclude palm oil and paper pulp producers with no responsible policy regarding forest restoration, wildlife and environmental conservation.

- **Animal welfare:**

We want to preserve animal welfare and endangered species by limiting our exposure to harmful products, such as fur. The dyes and chemicals used by the fur industry also cause significant environmental pollution. We exclude all companies with more than 10% of revenues in the textile industry (producers and retailers) who have no anti-fur policy or did not confirm they do not engage in any activity involving the use of fur.

- **Nuclear:**

Although nuclear energy is a lower greenhouse gas issuer than most of the other energy production methods and despite its low marginal cost, controversies come from the high environmental and security risks related to plant dismantling and nuclear waste. We limit to 5% of the portfolio all companies having revenues from activities in the nuclear industry.

- **Thermal coal extraction:**

According to the International Energy Agency, more than 40% of CO_2 emissions from the energy sector come from coal[2]. Coal mining activities have a considerable environmental impact and are highly exposed to the financial risk of "stranded assets". In 2020, IVO Capital Partners decided to opt out from issuers that draw more than 30% of their revenues from coal mining. We will not increase our positions in companies already in the portfolio, and we are committed not to initiate new positions that do not meet this criterion.

[2] *2019 Report available on the website of the International Energy Agency.*

- **Oil sands:**

According to the International Boreal Forest Conservation Science Panel, extracting and refining oil sands is “the most polluting and carbon intensive oil process on earth, draining wetlands, diverting rivers and stripping all trees and vegetation from the forest”. Production requires 4 barrels of water for each barrel of oil. The production of these unconventional oil and gas results in environmental and health risks from contaminated water storage containing cancer-causing pollutants. It is also often related to indigenous rights violation. As emerging markets are especially exposed to oil extraction and production, we do exclude all companies with more than 10% of their revenues coming from oil sands extraction.

- **Countries under International sanctions and trade embargos:**

As of January 2019, United Nations have imposed sanctions and restrictive measures regarding the 16 following countries: Afghanistan, Central African Republic, Democratic Republic of Congo, Eritrea, Guinea-Bissau, Iran, Iraq, Lebanon, Libya, Mali, North Korea, Somalia, South Sudan, Sudan, Syria, Yemen. We exclude from our investment universe the direct (sovereign debt) and indirect (government-owned enterprises) financing of these countries.

As our universe is highly exposed to emerging markets, we systematically check during our investment process if the company under analysis is incorporated or has significant (more than 5% of its revenues) activities in the above-mentioned countries. If so, we closely ensure that its activities in the related country are not sanctioned by the UN. Only after making sure they are not, we are very attentive to whether they adopted a responsible policy including at least specific elements regarding Human Rights.

In an engagement process with our portfolio companies, **we grant companies on the above exclusion list a period of 18 months to become compliant before withdrawing our investment** (maximum 5% of the portfolio). This rule does not apply to the "controversial weapons" category.

III. Integration

1) ESG data collection

IVO Capital Partners relies on four types of ESG indicators for its extra-financial analysis:

- Environmental indicators
- Social indicators
- Governance indicators
- Human rights indicators

1. Environmental indicators

We use several indicators provided by Sustainalytics, on the following themes:

- **Carbon – company-specific operations**: indicators measuring the energy consumption and greenhouse gas emissions.
- **Emissions, effluents and waste**: indicators measuring the management of emissions caused by company operations into the air, water and soil, except for greenhouse gas emissions.
- **Resource use**: assessment of the efficacy and efficiency with which the company uses its raw materials (excluding oil-based products and energetic products) in its production and how the company handles the associated risks.

We also use Trucost data to measure and monitor the environmental impact of our portfolio:

- **The carbon footprint of our fund:** the carbon footprint measures past, present and future, direct and indirect greenhouse gas emissions associated with issuers in the investment portfolio. The unit is the tCO2e, or tCO2e per turnover / amount invested / production unit.
- **The environmental footprint of our fund:** the environmental footprint quantifies water emissions, landfilled, incinerated, nuclear and recycled waste, water, air and soil pollutants, and natural resources exploitation associated with our portfolio. The unit is the cost in euro, the cost in euro per turnover / invested amount / production unit with a distribution by issue (water, waste, etc).
- **2 degrees analysis:** the assessment of the strategy resilience must take into account the transition towards a more carbon-efficient economy, consistent with a less than 2 degrees or 2 degrees scenario. The unit is the temperature, the CO2 differential or the CO2 differential per amount invested.

2. Social indicators

Sustainalytics provides several social indicators, on the following themes:

- **Occupational health and safety**: takes into account the company's ability to provide its employees with a safe and sane work environment, exempt from physical, chemical, biological and radiological risks specific to its sector or industry.
- **Community relations:** measures the way the company manages the impact of its activities on local communities, notably in sectors where consequences on water quality, air quality and land availability are high.
- **Product governance**: assesses the way companies handle their responsibilities towards their customers. Emphasis is placed on the quality of the management system, marketing practices, accuracy of invoicing and after-sales responsibilities.

3. Governance indicators

The governance indicators measure the structure of the companies and their management of ESG risks:

- Integrity and quality of the Board of Directors and management
- Structure of the Board of Directors
- Shareholder and ownership rights
- Remuneration policy
- Financial reporting and audit

4. Human rights indicators

Sustainalytics has several indicators related to the management of human rights, on the following themes:

- **Human capital**: assesses the management of risks related to the lack of qualified workforce as well as labor relations, such as non-discrimination, working hours and minimum wages.
- **Human Rights**: assesses the respect of international norms and conventions and the protection of human rights within the activities of a company.

2) ESG rating

The preliminary study of the indicators provided by our ESG service providers enables us to rate our potential issuers according to their ESG quality:

- A – **the « best » ESG companies**: communication on the importance of ESG issues, proactive environmental, social and governance measures that are an integrant part of the company's culture.
- B – **the « good » ESG companies**: good communication, ESG risk-reduction measures, possible existence of some controversies.
- C – **the companies with a medium ESG quality:** poor communication and few ESG risk-reduction measures, existence of controversies.
- D – **the companies needing to improve their ESG policy**: very weak or absent ESG communication, high exposure to ESG risks, important or numerous controversies.

3) Additional internal analysis

In order to have a systematic view of the impact of an issuer's ESG quality on its credit quality, we carry out an additional analysis. Our ESG team makes a recommendation based on its discussions with the issuer, additional research, the manager's assessment and a proprietary methodology based on the Sustainability Accounting Standards Board's materiality matrix.

This qualitative analysis leads to one of these four recommendation levels:

- **Green flag** – The analyst believes that material ESG risks are not likely to impact the issuer's financial performance and bond yields.
- **Orange flag** – The analyst identifies at least one material ESG issue that is likely to negatively impact the issuer's bond performance.
- **Red flag** – The analyst believes that the financial risk associated with managing ESG issues is very high and that it is likely to hinder the issuer's ability to repay in the short term.
- **Black flag** – The analyst believes that investing would represent too great a risk of diminished returns or ESG-related default for IVO Capital Partners.

We assess the company's ESG quality level at the time of purchase and we review the indicators once a year.

4) Integrating ESG analysis into due diligence

Once we determine the ESG quality of an issuer and its level of recommendation according to our internal ESG materiality scale, we integrate these elements into our investment process.

a. Impact on requested spread

To complement our ESG data collection and internal analysis, we decide to adjust the rate of return we require from a company if the risk associated with managing its material ESG issues is high.

We thus compare the bond spread to the average spread of bonds in a defined same-rating universe (Standard & Poors, Moody's and Fitch average). When we identify a significant material ESG risk, we require the bond spread to be at least 200 basis points higher than the average spread of the same rating universe. This ensures that our clients receive adequate compensation for the ESG risk we tolerate within our portfolios.[4]

The spread is one of the decisive factors in our decision and daily investment monitoring. Consequently, integrating ESG factors has a concrete impact on our investment policy and prompts us to further debate these issues.

We use the following table to determine the average spreads (indicative dynamic values). We mainly rely on JP Morgan data available on Bloomberg. We chose to compare companies to the CEMBI Broad Diversified index, which gathers Investment Grade, BB, B CCC, and CC companies in Africa, Asia, Middle East, Europe and Latin America.

Rating	01/03/2020
A and higher	<120
BBB+	160,8
BBB	181,4
BBB-	223,2
BB+	265
BB	306,8
BB-	367,8
B+	428,9
B	489,9
B-	539,9
CCC+ and below	600

b. ESG due diligence

Environmental, social and governance risks affect our investment decisions depending on the recommendation level defined by our internal analysis. This final step determines whether the evaluated issuer meets IVO Capital Partners' requirements regarding ESG quality, a prerequisite for all our investments.

- **Green flag**
  - A, B or C – Positive ESG view on investment.
  - D – We may invest in these companies if they show a spread at least 200bps higher than the average spread for the same rating.

[4] *We do not apply the adjustment to bonds with a duration of less than 1, as it is normal for spreads on this type of bond to be lower than those on high duration securities: as they are close to maturity, they are less sensitive than bonds with a longer maturity.*

- **Orange flag**
  - A or B – These companies should be the subject of additional internal discussions on ESG risks identified by the analyst. The company is then requalified as a green, red or black issuer.
  - C or D – We may invest in these companies if they show a spread at least 200bps higher than the average spread for the same rating.
- **Red flag**
  - A, B, C or D – We may invest in these companies if they show a spread at least 200bps higher than the average spread for the same rating.
- **Black flag**
  - A, B, C or D – These companies are excluded from our investment universe regardless of their rating.

c. <u>"Best-in-class" approach for ESG-focused funds</u>

As part of our continuous improvement process, we seek to implement a more demanding responsible investment policy on some of our funds. In addition to the sector exclusions and our ESG integration methodology, we then apply an additional exclusion filter. This screening applies to the IVO Fixed Income Short Duration UCITS fund for now.

We chose a Best-in-class approach in order to favor actors who demonstrate innovation and adaptation to industry-related ESG issues. We also wish to gradually withdraw from issuers whose ESG quality fall well below industry best practices. Thus, we exclude from our investment universe issuers with an ESG quality lower than at least 80% of issuers in the same industry. The reference universe and the performance ranking by sector are provided by our partner Sustainalytics.

5) Overview of our ESG integration process

Sustainalytics Score / Analyst view	A 0 – 32	B 32 – 50	C 50 – 60	D 60+
Green flag	Positive ESG view on investment			Request for higher spread than average CEMBI spread for similar rating +200bps
Orange flag	Request for additional discussion and reclassification		Request for higher spread than average CEMBI spread for similar rating +200bps	
Red flag	Request for higher spread than average CEMBI spread for similar rating +200bps			
Black flag	Issuer excluded from investment universe regardless of the rating			

IV. Engagement

1) Why do we engage with companies?

The growth potential of companies in emerging markets is significant, but so are the associated ESG risks. Regulations in these countries are generally less stringent, and issues of corruption and environmental and social challenges can be significant. Most emerging countries are also less advanced on ESG communication and risk management issues. **The objective of our engagement policy is to help these companies in strengthening their management of ESG risks and support them in making positive change.**

Today, our « boutique » asset management status and our intermediate size **allow us to be flexible and promptly adapt our investment policy.** However, despite our ability to react quickly and frequently meet with the management, as we invest in debt and not shares, **we have less leverage to prompt companies to change than shareholders**. Moreover, emerging markets are not very mature regarding ESG issues compared to developed countries. All these reasons led us to **decide to work with an external service provider**, Sustainalytics, to help us increase our impact and support us in this engagement policy.

2) Engaging with Climate Action 100+

In June 2020, IVO Capital Partners decided to join the investor-led initiative Climate Action 100+, launched in December 2017 during the One Planet Summit and considered one of the most relevant initiatives to address the challenges of climate change.

Climate Action 100+ aims to ensure the world's largest corporate greenhouse gas emitters take necessary action to fight climate change. Among these companies are 100 'systemically important emitters', accounting for two-thirds of annual global industrial emissions, alongside more than 60 others with significant opportunity to drive the clean energy transition.

Alongside the 450 investors involved in the initiative with more than USD$40 trillion in assets under management, IVO Capital Partners supports the sign-on statement and asks companies to strengthen their governance on climate change, reduce their greenhouse gas emissions and reinforce their disclosure of climate-related financial information.

IVO Capital Partners is an active member of the coalitions of investors engaged with the following companies:

- Sasol
- Vale SA
- AES
- Suzano

3) Sustainalytics support

We chose Sustainalytics because the company has more than 25 years of experience in the development and redefinition of a transparent engagement model based on international conventions and norms. Its 55 clients engaged worldwide manage more than 1.8 trillion in assets. Its team include 21 engagement professionals in Europe and North America, helped by more than 120 analysts. Sustainalytics engages in a constructive dialogue with the companies most exposed to ESG risks in order to help them manage these risks better and implement good practices.

Our service provider gives us an engagement service on specific ESG risks: climate, plastic, business ethics, cybersecurity, taxation, etc. The objective of this engagement process is to improve the ESG performance of companies and their reputation.

We have access to research, news on ESG risks sent by Sustainalytics and the results of their regular company interviews. During these meetings, clear engagement objectives are defined, the companies' answers are evaluated, and each meeting is followed up by recommendations for improvement. Positive developments are reported to us, as well as companies ignoring ESG issues and lacking improvement efforts, this thus becomes a point of increased attention on the company.

IVO Capital Partners can engage in the desired way alongside Sustainalytics and its clients: participation in meetings, phone interviews and trips, access to the client platform with all the research on the universe.

V. Reporting and promotion

1) Promoting responsible and sustainable initiatives

IVO is committed to promoting responsible initiatives by taking part in international and national ESG promotion initiatives and by donating to foundations and associations.

- **Participation in international and national ESG initiatives**

Since February 2017, IVO is a signatory to the United Nations charter, **"Principles for Responsible Investment" (PRI).** Upon the 2019 annual review report, IVO was graded A for the Strategy & Governance category of the reporting on its responsible investment activities. Signing on this charter has 6 major implications :

1. We will incorporate ESG issues into investment analysis and decision-making processes
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.

IVO Capital Partners also supports the **International Integrated Reporting Council (IIRC)**. The IIRC is a global coalition of actors convinced that corporate reporting must evolve towards a communication on value creation. IIRC has developed a framework that structures a common set of guiding principles, key concepts and building blocks for the Integrated Report, with the following objectives:

- Improve the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital;
- Promote a more cohesive and efficient approach to corporate reporting that draws on different reporting strands and communicates the full range of factors that materially affect the ability of an organization to create value over time;
- Enhance accountability and stewardship for the broad base of capitals (financial, manufactured, intellectual, human, social and relationship, and natural) and promote understanding of their interdependencies;
- Support integrated thinking, decision-making and actions that focus on the creation of value over the short, medium and long term.

IVO is also a supporter of the **Task-Force on Climate-related Financial Disclosures (TCFD)**. In 2017, this taskforce set up by the G20 Financial Stability Board published a set of recommendations to encourage consistent and reliable financial reporting enabling investors to take proper account of climate-related financial risks. These recommendations are based on three key findings:

- Climate change is going to be very costly to the economy (2,300 billion dollars);
- Reporting is an essential tool to reduce this risk as it allows shareholders, banks and financial actors to assess the cost of climate change;
- Companies must publish 2°C scenarios and assess the potential financial impact of climate change on their activities.

These recommendations are now widely recognized by governments, investors and financial managers as climate reporting best practice.

- **Donations to foundations and associations**

In order to encourage social progress, IVO Capital financially supports the following foundations and associations:

- *Foundation 154 for childhood, education and environment* – Moral and financial support for projects in the charitable, social, educational and cultural fields, as well as in the fields of art and communication, in France and internationally (Espoirs d'Enfant, C.I.E.L.O, Les Enfants de l'Aïr, Sourires d'Enfants, etc.)
- *École Thot* – Diploma training in French as a Foreign Language, in a stable, specific and complete framework, for refugees and asylum seekers without diplomas.
- *Centre Primo Levi* – Structure dedicated to the care of torture and political violence victims who are refugees in France: psychological, medical and physiotherapeutic care, social and legal assistance.
- *LEV* – Endowment fund oriented towards the needs of children to accompany and support associations carrying out any action of general interest.
- *Imagine for Margo* – Association fighting children's cancer : funding and mobilization of research players, raising awareness of children's cancer, improving the well-being of sick children.
- *Namaste Enfants d'Himalaya* – Association for the support of Nepalese projects with the aim of helping children in difficulty and contributing to development aid.

2) Reporting on our responsible investment activities

We think it is important to be transparent by disclosing our actions and measuring their environmental, social and governance impact, in order to raise our clients' awareness of these issues.

We therefore publish on our website several public documents that report on our activities and progress in terms of responsible investment.

- **At the level of the asset management company IVO Capital Partners**
  - Published reports :
    - Annual Principles for Responsible Investment report;
    - Annual UNPRI review report.
  - In-progress reports :
    - Annual ESG report;

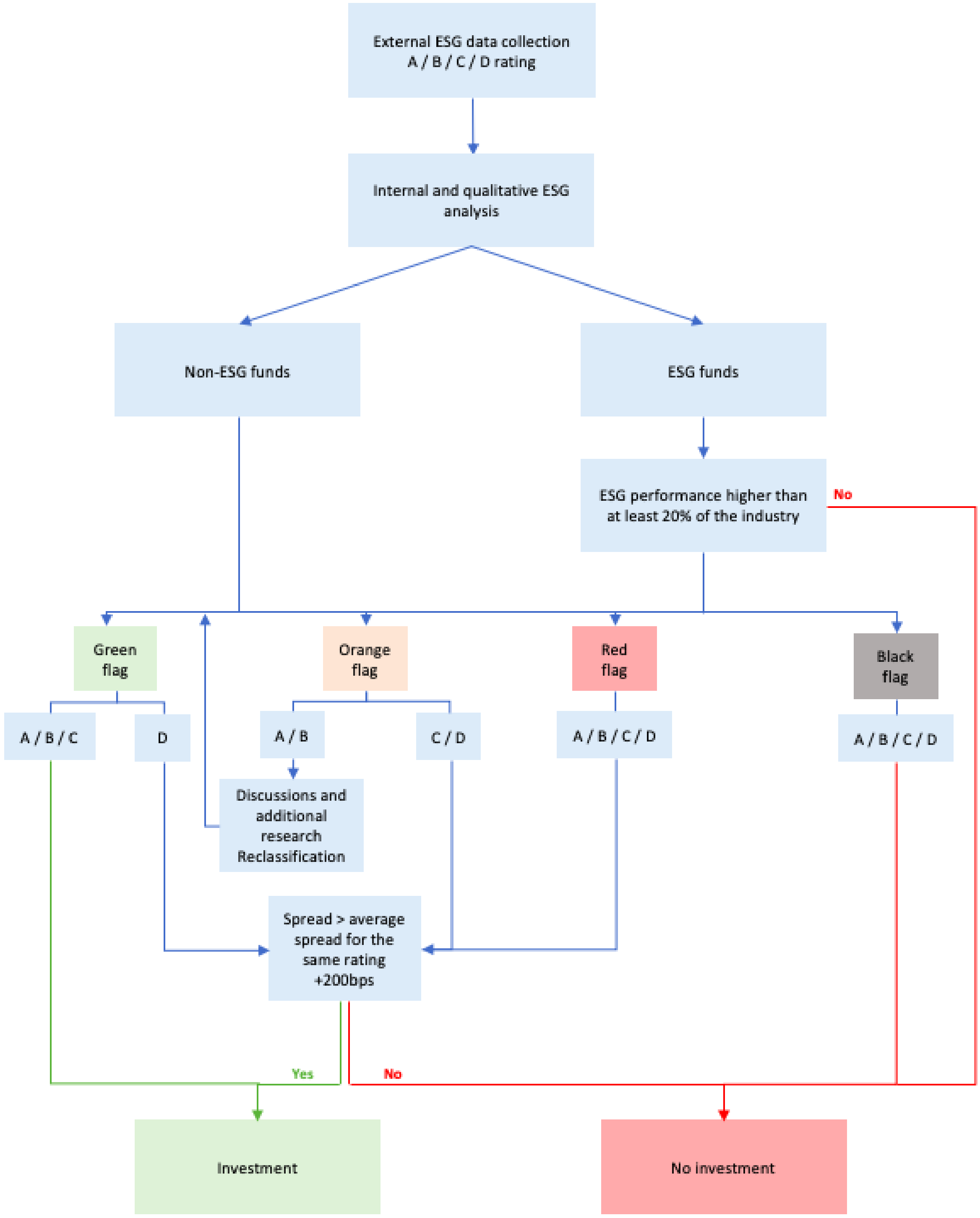
        - Annual report on the carbon and environmental footprint of our portfolios, in line with the recommendations of the Task Force on Climate-related Financial Disclosure.

- **At the level of ESG-focused funds**
    - In-progress reports
        - Annual impact report measuring :
            - The global ESG performance of the portfolio compared to a reference index ;
            - The portfolio environmental, social, governance and human rights performance.
        - Transparency report compliant with the Code issued by the French Association of Financial Management the Responsible Investment Forum and Eurosif.[5]

[5] *Aligned with the key elements of the TCFD recommendations, Article 173-VI of the French Green Growth Energy Transition Law and the recommendations of the European Commission's High-Level Group of Experts (HLEG) on Sustainable Finance.*

Appendices

Overview of our ESG integration process



Additional ESG issues

IVO Capital Partners systematically integrates ESG issues into its pre-investment analysis. In particular, we ensure that the companies in our investment universe demonstrate an adequate responsible policy for managing the following ESG risks:

- **Biodiversity :** we build our analysis on the objectives of the Convention on Biological Diversity, i.e. the conservation of biodiversity, the sustainable use of its components and the equitable sharing of the benefits arising from the use of genetic resources**.**
- **Water use :** we are increasingly vigilant about the commitments of companies operating in water-stressed regions or in sectors with a high water footprint.
- **Taxation :** we rely on the recommendations of the Forum for Responsible Investment regarding corporate tax responsibility.
- **Futures contracts on agricultural products:** we are careful not to contribute to speculative transactions that could contribute to price inflation in soft commodities.

Glossary

Stranded assets: Investments or assets whose value has eroded as a result of market developments. This phenomenon is often associated with changes in legislation, environmental constraints or technological advances that make these assets inefficient or obsolete.

Sustainable development: IVO Capital Partners relies on the definition of sustainable development provided by the World Commission on Environment and Development in the Brundtland Report: « Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs ».

ESG: This international acronym is used by the financial community to designate the Environmental, Social and Governance (ESG) criteria that generally constitute the three pillars of extra-financial analysis. They are taken into account in socially responsible management. We define these three criteria as follows:

- The environmental criterion takes into account: air and water pollution, climate change, deforestation, depletion of natural resources, waste management, loss of biodiversity and soil degradation.
- The social criterion takes into account: workplace safety, labour relations and equal opportunity, human rights, human capital management, product and service safety, procurement and manufacturing practices, marketing practices and community relations. et de fabrication, les pratiques de marketing et les relations avec la communauté.
- The governance criterion verifies: the composition and independence of the Board of Directors, accounting risk and financial disclosure, corruption and conflicts of interest, shareholder rights and executive compensation.

Responsible investment: Responsible investment aims to promote sustainable development, taking into account environmental, social and governance factors in order to generate long-term returns.

Materiality: Materiality refers to the economic, environmental, social and societal aspects that can significantly impact a company, its activities and its ability to generate financial and non-financial value for itself and its stakeholders.

Principles for Responsible Investment: Created in 2006 by the world's leading investors in partnership with the United Nations Environment Programme Finance Initiative (UNEP-FI) and the UN Global Compact, the PRI initiative brings together an international network of signatories committed to applying the six Principles for Responsible Investment. The Principles aim to ensure that non-financial criteria are taken into account by all financial businesses.

SASB: The Sustainability Accounting Oversight Board (SASB) is a not-for-profit organization that sets standards for financial reporting. Its action is specifically directed towards industrial activity, which the organization tries to subject to ESG criteria. In setting its sustainability reporting standards, SASB considers the following five building blocks: environment, social capital, human capital, innovation and business model, leadership and governance.

ESG selection: A responsible investment approach that consists of selecting or weighting issuers within a portfolio according to their extra-financial rating. Novethic defines the three ESG selection approaches as follows:

- **Best-in-class** : favor companies with the best extra-financial ratings within their sector of activity, without favoring or excluding any sector in relation to the stock market index used as a starting point.
- **Best-in-universe**: favor issuers with the highest extra-financial ratings regardless of their sector of activity, assuming sector bias, since sectors that are on the whole considered more virtuous will be more represented.

- **Best effort:** favor issuers that demonstrate an improvement or good prospects for their ESG practices and performance over time.

TCFD: The Task-Force on Climate-related Financial Disclosures is a working group set up in 2015 at COP21 by the G20 Financial Stability Board. Its objective is to make markets more efficient and economies more stable and resilient by supporting financial transparency related to climate risks.