Sustainability Policy

Policy Document Description	
Objective/Description	The aim of the present document is to explain the manner in which ShelteR IM is governed in relation to sustainability, how it integrates ESG factors in investments, how is considers sustainability risk and principal adverse impact (hereinafter called "the Policy").
Entity	ShelteR IM (hereafter referred as 'SIM')

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1. General Introduction

1.1 General Framework

Reference is made to Regulation (EU) 2019/2088 (Sustainable Finance Disclosure Regulation "SFDR") that requires SIM to disclose its intentions regarding the implementation of sustainability for its investment business as a whole.

Notwithstanding the opting-out that is allowed by this Regulation and that is currently invoked by SIM, the Exco and the Board of Directors are of the opinion that integrating ESG in the investment framework of the firm is essential. The firm is therefore effectively working towards compliance with this complex new SFDR framework.

This policy sets out how SIM organizes :

- The governance of sustainability in SIM;
- The integration of ESG in the MIFID approach and methodology of SIM;
- The ESG factor integration within the investment team;
- The approach of SIM in relation to sustainability risk;
- The approach of SIM to considering principal adverse impact (PAI) monitoring, including the approach to good governance monitoring in particular

This policy is already applied by SIM in respect of certain UCITS fund management services (SIM branded funds) and can also already be applied to certain discretionary portfolio management (DPM) activities offered by SIM to certain type of investors. However, it is to be noted that SIM does not apply sustainability throughout all investment portfolios and has currently no intention to do so.

The specific approach to sustainability deployed by the investment teams of SIM depends on a multitude of factors including:

- the objectives of the investment product or solution;
- the underlying asset class;
- the projected investment time horizon;
- the specific research & portfolio construction methodology, philosophy and effective process.

SIM's liquid and illiquid investment teams deploy skills and judgment of the overall team when assessing the materiality of ESG-related risks and opportunities as appropriate for each investment strategy.

SIM target to be a responsible long-term investor with fiduciary obligations toward investors. We target to be responsive to environmental, social and governance ("ESG") factors that can present both risks and opportunities to investment portfolios of our clients.

However, as stated, several investment strategies of SIM do not integrate ESG for different reasons: this can be because it is not (currently) feasible, required or appropriate to apply ESG integration or because we lack knowledge to do so. We have mandates without any ESG integration in fund of fund mandates, active or passive investment strategies, equity and/or bond strategies in funds or DPM mandates. Often we don not apply ESG as this is not requested by clients.

1.2 SIMs commitment to Sustainability

SIM's commitment to sustainability is expressed in different ways that is likely to evolve over time:

- **ESG Integration**: this concerns the thoughtful consideration by SIM of material ESG factors appropriate for certain SIM's investment strategies as explained in more detail infra (sub chapter 3).
- **Sustainable Investing Solutions**: we aim to be in a position to provide our clients with investment solutions that are aligned with their returns objectives alongside their sustainability preferences and needs.
- **Stewardship and Engagement**: SIM's liquid and illiquid investment teams aim to employ to the extent possible shareholder rights and influence to encourage, where relevant and where possible, appropriate ESG practices.

1.3 ESG Principles

The ESG investment activities of SIM follow the following core principles:

- **Governance**: we have a proper internal governance structure and setup at SIM to advance sustainable investing in our business activities.
- **ESG Integration**: we are committed to considering and incorporating material ESG issues (including both risks and opportunities) when evaluating investment opportunities to the extent this is possible and required by clients;
- **Stewardship, Engagement and Voting**: we seek to encourage to improve sustainability performance of our investments by engagement and voting rights, notwithstanding being a small player in the market;
- **Ongoing Training**: we are committed to a culture of ongoing learning and improvement through internal training of the overall SIM team.
- **Reporting and Transparency**: we have all intentions to provide our investors with the appropriate level of information on sustainability : on the level of MIFID client information, on the level of pre-contractual and periodic disclosures, on the level of website disclosures and beyond.

2. Governance within SIM

SIM considers the effective management of sustainability issues as a core competence in its investment approach. We believe that having a sustainable framework is fundamental to the long-term success of SIM and our ability to deliver value for our clients.

We have established the appropriate top-down internal governance systems, clear risk management and investment management controls to support our intention to integrate sustainability considerations in parts of our business. This notwithstanding the choice for opting out of certain ESG regulation that we consider unclear, highly complex and even unfinished at this stage.

2.1 The Board of Directors of SIM

The Board of Directors of SIM oversees and guides the ESG integration of SIM's business, including the promoting of frameworks for sustainable investing; including supporting the continued innovation of ESG products and solutions by the teams; including championing sustainable investing as a culture; ensuring business readiness for evolving client and regulatory demands. The Board is responsible for this **Sustainability Policy**, which it reviews at least annually.

2.2 The Exco of SIM

The Exco of SIM defines the **approach to ESG integration** and acts as a centralized level for the investment team and for risk management & compliance, who are respectively responsible for devising appropriate ESG policies for investment strategies and for evaluating risks and regulatory constraints for investments, including relevant ESG issues at industry, company and portfolio levels.

The Exco is responsible for the determination of the **approach to sustainability risk** as described further in this policy. It is also responsible for the **proper implementation** of sustainability business efforts and the related governance processes and related **MIFID approach**. The Exco reviews enhancements to ESG investment integration practices in the investment teams, risk and compliance, overseeing the launch and disclosures of sustainable funds, supervising and approving strategic choices on sustainability matters, and selection of sustainability data providers to support the investment teams.

The Exco coordinates new sustainability product of service initiatives and continually enhances ESG integration practices with the purpose to deliver best-in class sustainability products and solutions.

The Exco can also adopt SIMs **remuneration policy** to promote sound and effective risk management with respect to sustainability risks, and which do not encourage excessive risk-taking with respect to sustainability risks.

The Exco is also responsible to understand and identify the **conflicts of interest** that may arise as a result of the identification and integration of sustainability risks in the investment process.

2.3 The investment team of SIM

The investment team of SIM has appointed a **dedicated sustainable Investing/ESG research specialist** to co-ordinate and support the work of ESG integration in the investment framework.

A key responsibility of this specialist is to work with the other portfolio managers in their respective activities (liquid and illiquid) to help ensure appropriate ESG integration, in line with the investment philosophy and strategy.

Other elements of the role include supporting continuously ESG integration in different investment processes through research, data from managers, training, knowledge-sharing with the team, helping define methodology for art 8 funds (where relevant) and to a lesser extent (given our size) some engagement with investee companies, and finally representing the ESG component in client meetings, consultant meetings and other forums and groups as necessary.

In particular, the dedicated ESG specialist will take co-ownership on the level of products that incorporate ESG. These responsibilities include : (1) sustainable funds (art 8) monitoring and preparation of RTS II annex; (2) first line portfolio compliance with ESG restrictions on asset and portfolio level including governance screenings, E/S characteristics screening and sustainability screenings (SDGs, DNSH and PAI analysis); (3) reporting internally and alerts follow-up on investment instruments; (4) DPM sustainability monitoring including portfolio compliance with ESG restrictions on asset and portfolio level and reporting to investors on DPM mandates; (5) analysis of sustainability data from data providers and EETs from third party fund managers; (6) overall control on the potential presence of violators of the principles enshrined in the United Nations Global Compact and OECD Guidelines when this requirement is disclosed in the investment policy of a portfolio or fund; (7) the identification of sustainability risks and PAI that may affect the SIM business across portfolio's.

2.4 Risk Management & Compliance

Our SIM risk management and compliance policies provide for specific risk and compliance controls

- on the level of ESG data and data sources;
- on the level of controls on sustainable portfolio management processes and effective investment strategies;
- on the level of observation and completeness of pre-contractual and period disclosure documents;
- on the level of proper and timely ESG related information disclosure on the company website;
- on the level of the remuneration policy; and finally
- on the level of the contractual framework and MIFID compliance.

3. Sustainability and MIFID at SIM

SIM has integrated ESG in its MIFID questionnaire since August 2022 and allows investors to opt for appropriate products, including (a) solutions that consider PAI on sustainability factors and (b) solutions that pursue a minimum proportion of sustainable investments as defined by SFDR. SIM does not offer solutions that are aligned with EU Taxonomy Regulation at this stage.

It is expected that by end of 2023, SIM will have offered all its investors the possibility to consider if they wisht integrate ESG in their portfolio.

4. Sustainability Investing Framework

SIM is of the opinion that ESG factors are generally gaining increased significance as a material contributor towards both risk mitigation and long-term investment returns.

ESG factors could also have a growing influence on the availability of new investment opportunities. To that end, SIM is moving towards a setup where it is considering and incorporating material ESG issues (including both risks and opportunities) when evaluating investment opportunities.

We offer a variety of sustainable investing options, from funds that integrate ESG factors (including sustainable investments) to DPM including ESG factors (and sustainable investments). SIM has developed a framework to articulate how sustainable investing can be implemented across fund of fund and equity strategies. We strive to implement ESG integration in managing portfolios as best suited to a given investment strategies. But we also deploy other analytical and portfolio construction approaches which extend beyond ESG integration.

5. Integration of ESG Factors

SIM believes that macro sustainability trends present a growing set of risks and opportunities to investors. Leveraging ESG information can sometimes assist to better identify the materiality of those risks and opportunities.

SIM adopts a tailored approach to ESG integration whereby the investment team is ultimately responsible for exercising its judgment to identify and integrate materially relevant sustainability risks and opportunities into their investment decision-making process, including due diligence and research, valuation, asset selection, portfolio construction and ongoing investment monitoring.

In doing so, they leverage ESG and other information and insights in a way that is best suited to the specific investment philosophy, asset class, and time horizon of a given strategy or product.

Examples of the ESG factors that can be relevant to the investment team of SIM include:

(1) **Climate Change Factor** (with **risks** such as transition risk and physical risk and with **opportunities** such as financing the low carbon transition, renewable and clean technologies and nature-based climate solutions);

(2) **Natural Resources Factor** (with **risks** of rising costs from resource scarcity or resource usage taxes and the systemic risk from biodiversity loss and with **opportunities** such as financing the use of alternative materials, resource efficiency and regeneration technologies);

(3) **Pollution and Waste Factor** (with **risks** including liabilities associated with pollution and contamination and waste management cost and **opportunities** such as financing the circular economy and waste disposal technologies);

(4) **Human Capital Factor** (with **risks** such as declining employee productivity, attrition, turnover costs and supply chain reputational risks or disruption from unrest or non-compliance and with **opportunities** such as improving employee productivity, satisfaction and retention, Supply chain productivity and efficiency);

(5) **Customers Factor** (with **risks** such as acquiring liabilities from harmful or faulty products, recalls, loss of access to markets but with **opportunities** such as product innovation to address emerging concerns, e.g. healthy lifestyles, privacy protection, sustainability labels, resilient profit margins through stronger brand value);

(6) **Community Factor** (with **risks** as loss of license to operate, operational disruptions caused by protests/boycotts, systemic inequality and instability but with **opportunities** such as financing opportunities to increase access in underserved markets to healthcare, communication, nutrition and financial products and services).

The investment team of SIM may leverage information to support ESG integration activities such as company disclosed and non-company disclosed information (including news reports or industry data), third-party research, engagement with company management, other data sourced through bespoke due diligence.

1. Public Markets Investing and ESG Factor integration

ESG integration can be used to support SIM's ability to manage risk and generate returns through investing in public securities. ESG information can be used to enhance due diligence that underpins security analysis and valuations, inform asset allocation and portfolio construction, construct or optimize against investment benchmarks.

In **equity portfolio's** SIM can integrate material ESG factors and utilize company-level research to develop investment strategies that create and capture value while reducing risk. Sometimes we engage with senior management of companies and can use proxy voting rights in support of the investment thesis for a given stock.

We currently do not offer internally developed **fixed income solutions** with ESG integration but are looking at ESG scoring methodologies for corporate, sovereign and securitized issuance. We are also considering to build a framework for labelled thematic sustainable bonds, through which the robustness, impact and transparency of such instruments are evaluated.

In **third party fund** analysis we consider ESG factors on asset class and style of investing within the relevant fund. We classify and analyze fund managers looking at EET, precontractual and periodic disclosure documents and we may conduct thematic engagements on materially important environmental and/ or social issues facing companies in order to ensure that the target funds follow good governance practices (see infra).

2. Private Markets Investing and ESG Factor integration

ESG integration can also supports SIM's ability to manage risk and generate returns through investing in private markets, where ownership and operational control is mostly directly held (whether majority or minority), assets are generally rather illiquid, holdings periods are generally multi-year, and information is often more difficult to obtain.

ESG information can be used to enhance the pre-investment due diligence and information discovery that underpins valuations, highlight go/no-go issues in investment selection and deal structuring.

The illiquid investment team **for real estate** does evaluate ESG risk and opportunity factors identified during pre-investment due diligence, conduct reviews of assets to assess greenhouse gas ("GHG") emissions and eventually energy, water and waste consumption of assets. These reviews may include an energy audit, a green building certification analysis and identification of measures that will improve sustainability performance, such as renewable energy installations, energy efficiency projects and investing in emission reduction technologies.

The illiquid investment team **for private equity fund of funds** can take into consideration ESG risks and opportunities integrated into external manager due diligence. Manager due diligence can include analysis of commitment to ESG integration as assessed through policies and governance structures, an analysis of the extent to which ESG integration is factored into the investment process, and an assessment of how external managers manage diversity and inclusion and sustainability in their own business operations.

6. Approach to Sustainability Risk

Financial market participants shall publish on their websites information about their policies on the integration of sustainability risks in their investment decision-making process. Financial advisers shall publish on their websites information about their policies on the integration of sustainability risks in their investment advice or insurance advice.

SIM recognizes that various sustainability factors can pose actual or potential material risks to investments at the individual asset and at the portfolio levels.

These risks include, but are not limited to :

- climate change transition and physical risks;
- natural resources depletion;
- waste intensity;
- labor retention,
- turnover and unrest;
- supply chain disruption;
- corruption and fraud;
- human rights violations.

SIM recognize that the universe of relevant sustainability risks evolves over time as the universe of sustainability factors considered relevant changes and grows. The materiality of such risks on an individual asset and on a portfolio as a whole depends on industry, country, asset class, and investment style.

Sustainability risks can materialize for assets and investments in a range of ways, for example:

- impaired or stranded asset values,
- increased operational costs,
- unforeseen liabilities and penalties,
- loss of access to markets/customers,
- reputational damage.

The investment teams are the first line of defense for identifying, understanding, and mitigating potential sustainability risk in portfolios.

For the **liquid investment business** we consider for our products sustainability risk exposures (using third party ratings and data) such as controversial business exposures on UN Global Compact compliance, and the potential impact of different climate change and transition risk scenarios.

For **illiquid business**, the investment team will consider during due diligence material issues relating to a proposed investment, which may include, for example, the monitoring of energy, greenhouse gas, water and waste data and implementation of any asset-relevant initiatives.

ESG issues or opportunities are raised and reviewed as part of the IC process. ESG risks and opportunities are continuously evaluated as part of our investment management activities.

7. Principal Adverse Impact Monitoring, including good governance

1. General

SIM recognizes that an unintended consequence of some investments may include some level of “adverse impact” on broader systemic sustainability factors such as :

- environmental matters;
- social and employee matters;
- respect for human rights;
- anti-corruption and anti-bribery matters.

The systemic nature of sustainability issues needs to be addressed in a coordinated and concerted manner. The investment team starts to look at the portfolio holdings in all our funds and DPM mandates to facilitate this holistic approach and can, based on the balance of exposures and potential market influence, periodically define “areas of potential principal adverse impact” which may require attention.

For example, these include potential contributions to:

(i) the increase of greenhouse gas emissions and systemic climate risk;
(ii) the increased use of finite natural resources;
(iii) the volume of hazardous and non-recyclable waste; and

(iv) violations of social norms and employee rights.

SIM uses reasonable efforts to obtain the required data to monitor these potential impacts, and to understand any remediation efforts undertaken by companies. Additionally we strive to adhere to several normative business conduct codes and standards.

2. Good Governance

The investment team screens for violators of the principles enshrined in the United Nations Global Compact and OECD Guidelines, especially when this requirement is disclosed in the investment policy of a portfolio or fund. Although we are not a signatory to the Principles for Responsible Investment, we target to adhere to their standards.

SIM focuses on the corporate governance factors that it considers to be most relevant given the sector, region, and asset class. However, there are some high-level principles that are generally applicable. Our objective is to support governance practices which enhance and protect long-term shareholder value.

SIM applies a governance lens to company analysis throughout the lifecycle of an investment, and we tailor our assessment of the material issues to reflect other relevant factors such as the position size and the asset class.

In general terms the following principles apply would appear as core principles for the associations described above:

- The importance of board accountability to investors;
- Shareholder rights in reasonable proportion to economic ownership;
- A board structure that fosters independence, a mix of perspectives, and effectiveness; and
- Incentive structures for boards, management, and employees that are aligned with the company's strategy.

Other factors to consider include the robustness of the internal controls framework and whether the external auditor provided a qualified (or contentious) audit opinion. SIM attaches value to independent directors on a company's audit committee to provide robust oversight of the financial reporting and control framework.

Particular attention can be paid to the board's handling of any ESG controversies, including those related to employee relations and taxation. The company's policies, practices and level of disclosure are also considered in the assessment, as an outcome of effective board oversight.

3. Article 8 and 9 funds

Following the introduction of the EU's Sustainable Finance Disclosure Regulation (SFDR), all companies held within Article 8 and 9 funds must follow Good Governance practices.

On a qualitative level, understanding the corporate governance practices, incentives, and board quality of corporate issuers is a standard expectation of our investment team. They understand governance and ESG issues, and they are expected to assess these factors upon initiation of a new investment. They are also expected to monitor for changes and highlight any concerns about these issues in their research reports, which are distributed internally.

We have enhanced our process for art 8 and 9 funds with the addition of a two-step, systematic quantitative and qualitative assessment of governance practices.

Step 1: Quantitative review

We conduct a systematic good governance assessment for all companies in our investment universe, but it will only apply to those held in Article 8 or 9 products.

Step 2: Qualitative review

If a company's Good Governance quantitative review is negative, we can undertake a qualitative review, during which they evaluate the company's practices within the context of market and sector norms, using a mix of qualitative and quantitative data.

Inputs used in the analysis include:

- The basic governance structure a company employs, compared against regional norms;
- The presence of any significant controversies in the conduct of the board or management;
- The presence of significant remuneration-related controversy in the prior year;
- The degree of insulation a company has from its investors as a result of its capital structure, concentrated shareholders, or the use of protective charter provisions.

The results of the Good Governance assessment serve as an input to the portfolio manager's decisions about the suitability of a particular security for particular portfolios.

In accordance with the SFDR and accompanying regulatory guidance, Article 8 and 9 products are not permitted to hold investments in companies that do not pass the Good Governance test.

Once a company has been assessed as not passing the Good Governance test, it is not a permitted investment for Article 8 and 9 products and therefore cannot be purchased. If an existing holding in an Article 8 or 9 portfolio is later deemed to no longer meet the Good Governance standard, this position will be addressed.

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