ShelteR Investment Management Policy

Sustainability Risk Policy

Process Document Description	
Objective/Description	This policy describes in more detail the approach of SIM regarding sustainability risks and the framework and setup for sustainability risk controls for liquid and illiquid assets.
Entity	All entities
Portfolios	All portfolios
Instrument Type	All instruments

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1. General

Reference is made to article 3 of the Regulation (EU) 2019/2088 (Sustainable Finance Disclosure Regulation "SFDR") that requires SIM to disclose its policies on the integration of sustainability risks in their investment decision-making process.

Sustainability risks are defined as environmental, social or governance events or conditions that, if they occur, could cause an actual or a potential material negative impact on the value of the investment (i.e. ''outside-in'' approach).

The Sustainability Risk Policy of SIM is the implementation of the sustainability risk analysis required in Chapter 6 of the overall Sustainability Policy of SIM. As described in Chapter 6 of this overall Sustainability Policy, SIM recognizes that various sustainability factors can pose actual or potential material risks to investments at the individual asset and at the portfolio levels that SIM manages.

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 recognizes that the universe of relevant sustainability risks can/will evolve 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.

For the **liquid investment business** SIM considers sustainability risk exposures using third party ratings and data as described in more detail below. SIM is of the opinion that these scores reflect the risks that the firm has identified as material in terms of sustainability risk.

For its **illiquid business**, SIM considers sustainability risks to the extent possible on an ad hoc basis during the initial due diligence and on an ongoing basis. This analysis is part of the specific investment analysis, the quarterly AIFM risk analysis and the annual AIFM risk reporting to the CSSF.

2. Internal Setup for Sustainability Risk Assessment

Process within SIM for Sustainability Risk Assessment

The approach applied within SIM regarding sustainability risk assessment follows a four step process

- **Identify** : this step involves the creation of a framework that shows what are considered as sustainability factors by SIM that could potentially influence the financial value of investments and therefore pose a risk;
- **Measure** : this step involves how SIM measures sustainability risks through the application of data screening in line with the identification framework;
- **Manage** : this step involves a set of rules that determines what actions are needed in what case by SIM, including escalation;
- **Monitor** : this steps involves the monitoring of the framework to determine whether actions are needed.

The process within SIM is managed via structural reporting flows produced by the Sustainability Officer and the Sustainability Committee that facilitate the internal decision-making and that evidence that the policy was properly implemented & executed.

Responsibilities in relation of Sustainability Risk Assessment

- The **Board of Directors** is responsible for the overall Sustainability Policy of SIM that the Exco is required to implement and where a section is dedicated to Sustainability Risk Assessment.
- As part of this implementation, the **Exco** is responsible for establishing a Sustainability Risk Policy.
- For this purpose, the Exco has created a **Sustainability Committee** that is responsible for reviewing and implementing the Sustainability Risk Policy and for organizing the 4 step process described in this Policy.
    - The composition of the Sustainability Committee can be find in the Procedure Committees and Reports of SIM and the Functions and Tasks overview.
    - SIM also appointed a Sustainability Officer within the Investment Team.
    - The Sustainability Committee meets at least on a quarterly basis.
- The **Investment Team** of SIM is the first line of defense for identifying, understanding, and mitigating potential sustainability risks in portfolios. The **Sustainability Officer** that is part of the investment team will perform regular Sustainability Risk measurement and screening and prepare the report under the supervision of the head of investments. The Sustainability Risk analysis is also part of the instrument review meeting organized by the Investment Team where new instruments are reviewed and existing instruments analysed (first line).
- The **Exco** (in principle on a monthly basis) deals with escalations by the instrument meeting of the investment team or escalations made directly by the Sustainability Officer (second line).
- The **RMF** and **Internal Audit** function perform controls on the proper implementation of the Sustainability Risk Policy.

3. Equities

3.1. Step I: Identify

General

SIM has opted to make use of the Sustainalytics' ESG Risk Ratings that are designed to help investment firms to identify and understand financially material ESG risks at the security (and portfolio) level. The ESG Risk Rating of Sustainalytics captures an issuer's exposure to material, industry-specific ESG risks and an issuer's management of those risks and therefore captures well the risks identified by SIM.

The ESG Risk Rating provides SIM with an overall company score based on an assessment of how much of a company's exposure to ESG risk is unmanaged. The more of this risk that is unmanaged, then the higher the ESG Risk Rating score. SIM has reviewed this methodology that is described below in four steps :

- ESG Risk Rating Methodology
- ESG Risk Rating Score
- ESG Risk Rating Research Process
- Issuer Engagement

ESG Risk Rating Methodology

Exposure to ESG Risk

Sustainalytics has developed a proprietary model for determining a company's exposure to ESG risk that has been reviewed by SIM. The exposure to ESG risk is assessed by the Sustainalytics research analyst team across over 130+ Sustainalytics-defined sub-industry classifications. Sustainalytics reviews the potential impact of 20 **material ESG issues** ("**MEIs**") on each of these sub-industries and then through an intensive consultation process, the Sustainalytics research analyst team selects up to 10 MEIs per sub-industry. Every issuer within a specific sub-industry is initially assigned the same set of MEIs and **Corporate Governance** is applicable to all issuers.

An issuer's final exposure score includes company specific adjustments. A MEI may be disabled if it is not relevant for a specific issuer. Each issuer receives an "issue beta" assessment for each MEI that can increase or decrease the sub-industry exposure score on each MEI. Finally, each company faces the possibility of "idiosyncratic risks" – i.e., an event-driven risk that emerges due to a severe ESG controversy (category 4 or 5). In these cases, additional exposure is added.

Management of ESG Risk

Sustainalytics has developed a proprietary model for determining a company's management of its exposure to ESG risk – its **managed risk score**. Controversies are also assessed at the MEI level and are considered a breakdown in management.

Any controversy results in a decrease in management score, with the decrease being higher for more severe controversies. Each issuer faces the possibility of an "idiosyncratic risk" – i.e., an event-driven risk that emerges due to a severe ESG controversy (category 4 or 5) on an issue that is not typically considered material for that company. In these cases, an additional event indicator is added, which reduces the company's overall management score.

Unmanageable Risk

An important feature of Sustainalytics' rating is the introduction of the concept of manageable risk and unmanageable risk :

- Unmanageable risk is the portion of a company's exposure score that remains a risk to the company regardless of its management practices. For example, tobacco companies cannot fully eliminate the health risks associated with their products.
- Manageable risk is the portion of a company's exposure score that can be managed through its policies and programmes.

The proportion of manageable vs. unmanageable for each MEI is defined at the subindustry level.

ESG Risk Rating Score

A company's ESG Risk Rating score is the sum of unmanaged risk for each of the company's MEIs. The unmanaged risk of an MEI is calculated as exposure minus managed risk.

ESG Risk Categories

An issuer's ESG Risk Rating score is assigned to one of five ESG risk categories:

- negligible,
- low,
- medium,
- high, and
- severe.

Each category captures a level of material financial impacts driven by ESG factors.

Exposure

For each MEI assigned to an issuer, exposure is scored typically on a 0-20 range, with 20 being the highest exposure. Each MEI exposure score represents a portion of the overall exposure score, which ranges between 0 and 100.

Management Score

An issuer's overall management score is the sum of the weighted scores of each MEI management score. Weights are determined by the contribution the MEI's manageable risk score makes to the overall manageable risk score. For each MEI, the management score is the sum of each weighted management indicator score. The weights for management indicators within an MEI are based on the indicator's relative ability to reflect management's performance on that issue. Each management indicator has a raw score between 0 and100.

ESG Risk Managed Score

The overall company Managed Risk score is the summation of all MEI managed risk scores. The MEI managed risk score is determined by multiplying the MEI management score by the MEI manageable risk score. Example: If a company has manageable risk of 8 for an issue and the management score is 70 for that issue, its managed risk will be 8 * 70% = 5.6

Unmanaged Risk Score

This is the ESG Risk Rating score. The Unmanaged Risk Score = unmanageable risk score + unmanaged manageable risk score.

ESG Risk Rating Research Process by Sustainalytics

SIM has reviewed the research process conducted by Sustainalytics. An issuers' ESG Risk Rating is updated via an annual research process by a Sustainalytics' research analyst that includes the following:

- Review of Sources
    - Corporate publications and regulatory filings (e.g. Annual Reports and Corporate Sustainability Reports)
    - News and other media
    - NGO reports/websites
    - Multi-sector information sources (e.g. Global Reporting Initiative, Carbon Disclosure
    - Project reports)
    - Company feedback

- Assessment of management indicators
    - Includes a review of ESG controversies
- Processing any issuer feedback on draft ESG report
- Quality and peer review

Collection of issuer data

Analysts at Sustainalytics collect relevant issuer data from public documents available on the issuer website and/or via regulatory authorities, or from direct communication with issuers themselves. Review of media and NGO Sources : news screening is conducted daily, and ESG-related controversies are processed within 48 hours. Sustainalytics has an extensive methodological framework that enables thorough, consistent and timely controversy assessments to keep clients informed of ongoing and developing ESG risks in the Sustainalytics coverage universe.
Sustainalytics tracks reports and websites of Non-Governmental Organizations (NGOs) that have a reputation for providing reliable research. On a quarterly basis, relevant information is filtered from NGO reports and used to update management indicators.

Management Indicator Assessments

For every indicator, the Sustainalytics analysts evaluate the degree to which a company meets relevant best practice standards. On this basis, a raw score between 0 and 100 is assigned to every indicator, based on a set of detailed and well-documented internal criteria. In turn, these raw scores are aggregated based on a specific set of weights that reflects the relative importance of an issue and the related indicators.

Controversy Assessments

Controversies are a measure of company performance. Controversy research, which is updated continuously, is performed by a dedicated team of analysts, whose work is then reviewed by an ESG Ratings analysts prior to publication. Sustainalytics assesses companies for their level of involvement in controversies that have an impact on the environment or society and the associated business risks companies face from such involvement. Each controversy is categorized from Category 1 (low ESG impact) to Category 5 (severe ESG impact). For Category 4 and 5 controversies, efforts are made to engage directly with the issuer prior to the final assessment. An internal committee of senior research analysts and managers reviews and approves the final ratings determinations.

Quality and peer review

Analysts' indicator assessments are reviewed within Sustainalytics through quality assurances processes, including peer and manager review, as well as automated exception checking and change detection.

Other Update Processes

Certain indicators are updated within Sustainalytics on a cycle that vary from the annual update, including:

- Benchmarking indicators such as Carbon- and Water-related quantitative performance indicators, where comparisons to the broad universe require a single aligned update for all companies.

- Corporate Governance indicators related to board constitution, committees, corporate governance disclosure, and audit fees. These are researched by a separate team at Sustainalytics; the most recent research is included when the ESG report is updated in its annual research cycle, but the ESG reports will be republished when newer governance research is available.

Issuer Engagement

Companies have direct access to the Sustainalytics analysts team and can engage with these analysts at any time. In addition, Sustainalytics has explained to SIM that there is a dedicated Issuer Relations team that helps analysts manage their interaction with companies. Sustainalytics will initiate engagement with an issuer for two basic reasons:

Annual Update Feedback Process:

- *Outreach*: Sustainalytics contacts issuers in our comprehensive universe as part of the annual update of the ESG Risk Rating Report. An analyst contacts an issuer to solicit feedback on their research before the ESG Risk Rating Report is published.

- *Deadline*: Issuers are given two weeks to review the accuracy and completeness of the data collected. If issuers provide feedback within the allotted time frame, this information is reviewed and integrated by the analyst prior to the release of the updated report to Sustainalytics' clients.

- *Post-Publishing Updates*: If an issuer does not respond within two weeks, the updated ESG Risk Rating Report is published without feedback. If the issuer ultimately provides feedback, Sustainalytics will integrate relevant data as soon as possible and republish the ESG Risk Rating Report.

- *Documentation*: The use of issuer feedback is clearly documented in the sources list of the ESG Risk Rating Reports.

Significant ESG Controversy Assessment:

- Outreach: Analysts contact an issuer if an ESG controversy is downgraded to a Category 4 or 5(the most severe controversy levels), to provide an issuer the opportunity to review the facts and/or provide details on the management response to the controversy.

- Deadline: Issuers are given 48 hours to review the accuracy and completeness of the data collected.

3.2. Step 2: Measure

3.2.1. Stock Level

As identified in the previous step of this procedure, the ESG Risk Rating Score forms the basis for the **sustainability risk framework** that SIM puts forward.

The Sustainability Officer will analyse the Sustainalytics' **ESG Risk Rating Score** of all stocks in the ShelteR invested universe. In addition, the Sustainability Officer will also analyse the **ESG Risk**

Percentile – Subindustry and **ESG Risk Management Classification**, to define sustainability risks on stock level.

ESG Risk Percentile – Subindustry

Sustainalytics' assessment of a company's ESG Risk Score relative to the Sustainalytics' subindustry, expressed as a percentage rank, with 1% representing the company with the lowest ESG Risk Score and 100% the company with the highest ESG Risk Score in the subindustry.

- Companies with a severe to high ESG Risk Score, but a relatively low rank compared to their subindustry peers (75th percentile), help provide perspective on sustainability risks. When a company has an ESG Risk Percentile lower than 75%, this indicates that the company is managing their sustainability risk better than their counterparts in the subindustry. Therefore, assessing their sustainability practices in relation to their peers allows for a more comprehensive understanding of the sustainability risk.

ESG Risk Management Classification

The text descriptor that categorizes a company's overall ESG Risk Management assigned by Morningstar Sustainalytics. A company's overall management score is assigned to one of three management categories in the ESG Risk Rating: weak management (0-24.99 points); average management (25-49.99 points); strong management (50-100 points).

- Companies with a severe to high ESG Risk Score, but a strong to average ESG Risk Management, put the sustainability risk of a company into perspective. When the ESG Risk Score is severe to high, but the company performs a strong to average management in order to mitigate the ESG Risk, this can contribute to a better assessment when overlooking the overall sustainability risk of a company.

The ESG Risk Rating Score, ESG Risk Percentile – Subindustry and ESG Risk Management Classification will from the primary analysis within the Sustainability Framework that SIM puts forward. In addition, the following data fields can be used by the Sustainability Officer to better identify the sustainability risks of a stock, if necessary.

Notable Material ESG Issue 1, 2 & 3

Three (3) Material ESG Issues that the Morningstar Sustainalytics ESG analyst considers particularly relevant for understanding a company's ESG risk. Notable Material ESG issues have company-specific commentary that is written by an ESG analyst.

- The data field allows for the Sustainability Officer, to get a better understanding of a company’s sustainability Risk.

Sustainalytics Environmental Risk Score

Company Environmental Risk Scores from Sustainalytics measure the degree to which a company's economic value may be at risk driven by environmental factors. The environmental risk represents the unmanaged environmental risk exposure after considering a company's management of such risks. The Environmental Risk Scores are displayed as a number between 0 and 100, though most scores range between 0 and 25.

- Allows for the Sustainability Officer to get a better understanding where the severe to high ESG Risk Score is derived from (Environmental, social or governance risks).

Sustainalytics Social Risk Score

Company Social Risk Scores from Sustainalytics measure the degree to which a company's economic value may be at risk driven by social factors. The social risk represents the unmanaged social risk exposure after taking into account a company's management of such risks. The Social Risk Scores are displayed as a number between 0 and 100, though most scores range between 0 and 25.

- Allows for the Sustainability Officer to get a better understanding where the severe to high ESG Risk Score is derived from (Environmental, social or governance risks).

Sustainalytics Governance Risk Score

Company Governance Risk Scores from Sustainalytics measure the degree to which a company's economic value may be at risk driven by governance factors. The governance risk represents the unmanaged governance risk exposure after taking into account a company's management of such risks. The Governance Risk Scores are displayed as a number between 0 and 100, though most scores range between 0 and 25.

- Allows for the Sustainability Officer to get a better understanding where the severe to high ESG Risk Score is derived from (Environmental, social or governance risks).

Company Highest Controversy Level

Sustainalytics provides an assessment of controversies using news screens of over 60,000 sources. A news report of an issuer's alleged or actual misconduct is assessed to determine stakeholder impact and reputation risk within 48 hours of the event. Sustainalytics evaluates 10 different topic areas on a rating scale from 0-5 where 5 is the most severe.

- Allows for the Sustainability Officer to get a better understanding of the overall sustainability risks. Low controversy levels can contribute to a better assessment of the overall sustainability risk by the Sustainability Officer.

Carbon Overall Risk Category

The company's overall score in the Carbon Risk Rating. It is calculated as the difference between a company's overall exposure score and its overall managed risk score.

- Allows for the Sustainability Officer to get a better understanding of the overall sustainability risks. Low Carbon Overall Risk can contribute to a better assessment of the overall sustainability risk by the Sustainability Officer.

In addition, the Sustainability Officer can also use, if deemed necessary, data from data provider ISS ESG data and any publicly available information on a particular company.

3.3. Step 3: Manage

Sustainability risks will be assessed by the Sustainability Officer in the following way:

ESG Risk Score

- Negligible, Low, or Medium.

ESG Risk Scores indicating a negligible to medium ESG Risk allows the Sustainability Officer to identify, conclude and understand that financially material ESG risks at the security level is relatively low. The

Sustainability Officer will provide a unique statement that the sustainability risk is analysed and determine the level of risk to the company.

- High

ESG Risk Scores indicating a high Risk allows the Sustainability Officer to identify, conclude and understand that the enterprise value of a company is considered to have a high risk of material financial impacts driven by ESG factors. The Sustainability Officer will investigate the underlying factors determining the ESG Risk Score, namely: *Exposure, Management Score, Managed Risk Score and Unmanaged Risk Score* to get a better picture of a stock's sustainability risks for the unique statement per company. In addition, the Sustainability Officer will analyse the following data fields:

- *ESG Risk Percentile – Subindustry*

If a stock has a relatively low ESG Risk Percentile rank compared to the subindustry peers (<75th percentile), the sustainability risk will be adjusted positively, and no escalation is necessary. As this indicates that the company is managing its sustainability risk better than its counterparts in the subindustry.

- *ESG Risk Management Classification*

If a stock has a strong to average ESG Risk Management, the sustainability risk will be adjusted positively, and no escalation is necessary. As this indicates that the company is managing its ESG Risk in an efficient manner.

If ESG Risk Percentile – Subindustry > 70th percentile and ESG Risk Management Classification is weak, an **escalation report** with findings on the overall sustainability risk of a stock will be prepared by the Sustainability Officer and uploaded to the PMS tool. The Sustainability Officer will escalate these reports to Sustainability Committee and the Exco of SIM.

- Severe

An escalation report with findings on the overall sustainability risk of a stock will be prepared by the Sustainability Officer and uploaded to the PMS tool. The Sustainability Officer will escalate these reports to the Exco of SIM.

- No data

No data for ESG Risk Scores doesn’t allow the Sustainability Officer to identify the financially material ESG risks at the security level. The Sustainability Officer will first analyse the following data fields to see whether an escalation report is necessary:

- ESG Risk Percentile – Subindustry < 75th percentile

Or

- ESG Risk Management Classification = Average or Strong

If ESG Risk Percentile – Subindustry > 70th percentile and ESG Risk Management Classification is weak or if no data is available for the abovementioned fields, an **escalation report** with findings on the overall sustainability risk of a stock will be prepared by the Sustainability Officer and uploaded to the PMS tool. The Sustainability Officer will escalate these reports to the Sustainability Committee and the Exco of SIM. Escalation reports will be discussed, whenever necessary, in the quarterly sustainability committee.

Up to dateness of the sustainability framework as described above, will be discussed in the quarterly sustainability committee.

3.4. Step 4: Monitor

3.4.1. Stock Level

The Sustainability Officer will closely monitor the sustainability risks associated with the stocks held in the universe of SIM. The sustainability risks on stock level will be monitored on two levels:

1. The sustainability risks will be monitored in the daily risk & compliance checks by the risk officer. It is checked:

ESG Risk Score = Negligible, Low, or Medium = Sustainability Risk is OK
ESG Risk Score = High = Sustainability risk is NOK
But if,
ESG Risk Percentile – Subindustry < 75th percentile = Sustainability risk is OK; Or
ESG Risk Management Classification : strong or average = Sustainability risk is OK
Otherwise, an escalation report is needed. The presence of the escalation report in the PMS tool will also be checked in the daily risks and compliance check.
ESG Risk Score = Severe = Sustainability risk is NOK and an escalation report is needed.

The sustainability Officer will act whenever necessary to comply with the daily checks.

2. The Sustainability Officer will prepare an excel overview containing a unique statement on sustainability risk for all the stocks in the ShelteR IM universe.

3.4.2. Portfolio Level

To closely manage sustainability risks at the portfolio level, maximum 5% of any portfolio (UCITs Funds, FICs, FIDs, discretionary mandates) managed by SIM can have a high sustainability risk as analysed by the Sustainability Officer as set out in the sustainability risk framework. Stocks with a high sustainability risk, are stocks for which an escalation report is present in the PMS tool. Percentages will be calculated as a percentage of the total AUM in the portfolio. In case of a breach, the Sustainability Officer will perform an analysis of the portfolio based on the individual portfolio holdings. Based on the report, the Sustainability Officer will, together with the members of the Sustainability Committee, decide whether an intervention in the portfolio is necessary. The sustainability risks at portfolio level will also be monitored via the daily risk & compliance checks.

Whenever the sustainability risks at the portfolio level exceed the 5% limit, the client or the intermediary as the case may bewill be informed about the potential sustainability risks associated with the client's portfolio.

3.4.3. Overall Stock Universe

To effectively manage sustainability risk at the stock level within the overall universe, SIM has established a policy that limits the allocation of high sustainability risk stocks to a maximum of 10% of the total percentage of assets under management (AUM) at SIM. This determination is made based on analysis conducted by the Sustainability Officer in accordance with the sustainability risk framework. Stocks with a high sustainability risk, are stocks for which an escalation report is present in the PMS tool. The sustainability risks at the overall universe level will also be monitored in the daily risk & compliance checks.

3.4.4. New stocks in the ShelteR IM Universe

Whenever new stocks are added to the universe, the Sustainability Officer must first provide a unique statement of the company's sustainability risk based on a sustainability risk analysis.Pre-trade views on the sustainability risk of a stock will be visible in the portfolio checks in the PMS tool.

3.4.5 Up-to-datedness of the data

The requirement of the quality and up to date character of sustainability risk data will, together with the quality and up to date character of other sustainability data, be checked as a topic in the monthly instrument review meeting.

The excel overview with unique statements on the sustainability risk of individual stocks, will be checked and updated monthly by the sustainability officer and circulated to the company.

4. Bonds

For bonds, sustainability risks will be mapped by performing an analysis on the issuer of the bonds conform the framework mapped out for equities as described in section 3. Equities.

5. Funds

5.1. Step 1: Identify

General

SIM has opted to make use of the Morningstar Sustainability Rating designed to support investors in evaluating the relative environmental, social, and governance risks within portfolios.

The sustainability rating provides investors with a measure of the financially material ESG risks in a fund when compared with similar funds. Lower risk results in a higher rating. Higher ratings indicate that a fund is, on average, invested in fewer companies or sovereign debt with a high ESG risk under Sustainalytics' ESG Risk and Country Risk methodologies, and therefore exposed to less risk driven by E, S or G factors. SIM has reviewed this methodology that is described below in four steps :

- Sustainability rating Methodology
- Sustainability rating Score
- Sustainability rating Research Process

Morningstar Sustainability Rating Methodology

ESG Risk Rating

Sustainalytics' ESG Risk Ratings measure the degree to which a company's economic value (enterprise value) is at risk driven by ESG factors or, more technically speaking, the magnitude of a company's unmanaged ESG risks. The rating was created to provide investors with a signal that reflects to what degree their investments (single assets or portfolios) are exposed to ESG risks that are not sufficiently managed by companies.

For the review of the ESG Risk Rating methodology, we refer to section 3. of this procedure.

Country Risk Rating

Sustainalytics' has developed a model to assess the risks to a sovereign entity's socioeconomic well-being by combining an assessment of the government entity's current stock of capital with an assessment of its ability to manage the wealth in a sustainable manner. This is referred to as the Country Risk Rating. To quantify the amount of risk, the rating combines two dimensions: **Wealth and ESG Performance.**

A country's vulnerability to ESG risks is indicated by its **wealth**, consisting of Natural Capital (natural resources and ecological services), Produced Capital (infrastructure and physical assets), Human Capital (knowledge and skills), and Institutional Capital (social and institutional infrastructure). Higher wealth levels suggest lower vulnerability to ESG risks, as countries with more assets are better prepared to address environmental, social, and governance challenges.

ESG Performance evaluates a country's management of environmental, social, and governance factors, indicating the direction of its future wealth. Wealth and ESG Performance scores for each capital are averaged to determine risk scores, which are combined to derive the **Country Risk Rating**. Sovereign issuers are categorized into five ESG risk categories based on their overall risk scores: Negligible, Low, Medium, High, and Severe.

Morningstar Sustainability Rating

The Morningstar Sustainability Rating process involves five steps.

- First, the suitability of a fund for a rating is determined by assessing the exposure to ESG risks in its holdings and ensuring that at least 67% of these holdings are eligible for rating. If this requirement is not met, the fund is considered unsuitable for a rating.
- In the second step, the Portfolio Corporate Sustainability Score and Portfolio Sovereign Sustainability Score are calculated for each portfolio. These scores represent asset-weighted averages of Sustainalytics' company-level ESG Risk Rating and Country Risk Rating, respectively.
- The third step involves calculating the Historical Corporate Sustainability Score and Historical Sovereign Sustainability Score by averaging the trailing 12 months of Portfolio Corporate and Sovereign Sustainability Scores. More weight is given to recent portfolios, and if 12 months of consecutive data are not available, scores are derived from the most recent consecutive history of available portfolio scores.
- In the fourth step, the Portfolio Corporate Sustainability Rating and Portfolio Sovereign Sustainability Rating are determined by ranking the Historical Corporate and Sovereign Sustainability Scores of all funds within a Morningstar Global Category. The rankings follow a normal distribution, assigning ratings from 1 to 5, where 5 represents the lowest risk. Minimum distribution requirements ensure sufficient differentiation between scores to assign different ratings, and specific score thresholds limit ratings for portfolios with higher ESG risks.
- Finally, in the fifth step, the Morningstar Sustainability Rating is calculated by combining the Portfolio Corporate Sustainability Rating and Portfolio Sovereign Sustainability Rating proportionally to the relative contribution of their corporate and sovereign positions. This

rating reflects the overall sustainability assessment of the fund, considering both its corporate and sovereign sustainability performance.

Lower risk results in a higher rating. Higher ratings indicate that a fund is, on average, invested in fewer companies or sovereign debt with a high ESG risk under Sustainalytics' ESG Risk and Country Risk methodologies, and therefore exposed to less risk driven by E, S or G factors.

Percent Rank Rating Depiction

- Top 10% High
- Next 22.5% Above Average
- Next 35% Average
- Next 22.5% Below Average
- Bottom 10% Low

Sustainability Rating Research Process by Sustainalytics

The Morningstar Sustainability Rating, along with the Portfolio Corporate and Sovereign Sustainability Scores, Historical Corporate and Sovereign Scores, and Portfolio Corporate and Sovereign Sustainability Ratings, are issued on a monthly basis. They are released one month and six business days after the reported as-of date for company and country data from Sustainalytics. Ratings are assigned based on the most recent portfolio available, provided it is less than 276 days old.

5.2. Step 2: Measure

5.2.1. Fund Level

As identified in the previous step of this procedure, the Morningstar Sustainability Rating forms the basis for the **sustainability risk framework** that SIM puts forward.

The Sustainability Officer will analyse the Sustainalytics' **Sustainability Rating** in an initial analysis of all funds in the ShelteR universe. Funds with a Morningstar Sustainability Rating give SIM the ability to evaluate the relative environmental, social, and governance risks within the funds. In addition, the Sustainability Officer will also analyse the **Percentage of AUM with High and Severe Controversies** and the **Low Carbon Designation**, to define sustainability risk on a fund level.

Percentage of AUM With High or Severe Controversies

AUM distribution of holdings with High or Severe controversies.

- Funds with a low sustainability rating, but a percent of AUM with High controversies < 10 or Severe controversies < 5, allows for a positive adjustment of the overall sustainability risk, as this indicates that the funds high or severe controversies are relatively low and this puts the overall sustainability risks in perspective.

Low carbon designation

An indication whether the companies held in the portfolio are in general alignment with the transition to a low-carbon economy. In order to receive the Low Carbon Designation, the fund must have a Historical Carbon Risk Score below 10 and a Historical Fossil Fuel Percentage of Covered Portfolio Involved of less than 7%.

- Funds with a low carbon designation, allow for a positive adjustment of the overall sustainability risk, as this puts the low sustainability rating into perspective. The low carbon designation indicates that the companies held in the portfolio by the funds are in line with the transition to a low-carbon economy, which translates in a lower overall sustainability risk for the fund.

The Sustainability Risk score, Percentage of AUM With High or Severe Controversies and Low carbon designation will form the primary analysis within the Sustainability Framework that SIM puts forward. In case of escalation, the following data fields can be used by the Sustainability Officer to better identify the sustainability risks of a fund, if necessary.

Portfolio Environmental Risk Score

The asset-weighted average of the Company Environmental Risk scores for the covered corporate holdings in a portfolio. Company Environmental Risk Scores from Sustainalytics measure the degree to which a company's economic value may be at risk driven by environmental factors. The environmental risk represents the unmanaged environmental risk exposure after taking into account a company's management of such risks. The Environmental Risk Scores are displayed as a number between 0 and 100, though most scores range between 0 and 25.

- Allows for the Sustainability Officer to get a better understanding where the sustainability rating is derived from.

Portfolio Social Risk Score

The asset-weighted average of the Company Social Risk Scores for the covered corporate holdings in a portfolio. Company Social Risk Scores from Sustainalytics measure the degree to which a company's economic value may be at risk driven by social factors. The social risk represents the unmanaged social risk exposure after taking into account a company's management of such risks. The Social Risk Scores are displayed as a number between 0 and 100, though most scores range between 0 and 25.

- Allows for the Sustainability Officer to get a better understanding where the sustainability rating is derived from.

Portfolio Governance Risk Score

The asset-weighted average of the company Governance Risk Scores for the covered corporate holdings in a portfolio. Company Governance Risk Scores from Sustainalytics measure the degree to which a company's economic value may be at risk driven by governance factors. The governance risk represents the unmanaged governance risk exposure after taking into account a company's management of such risks. The Governance Risk Scores are displayed as a number between 0 and 100, though most scores range between 0 and 25.

- Allows for the Sustainability Officer to get a better understanding where the sustainability rating is derived from.

Portfolio Corporate ESG Managed Risk Score

The asset-weighted average of the company managed ESG risk scores for the covered corporate holdings in a portfolio. Corporate managed ESG risk Scores from Sustainalytics measure the degree to which a company effectively manages risk driven by ESG issues. ESG issues must have a potentially material impact on the economic value of a company to be measured. The managed ESG risk scores are displayed as a number between 0 and 100.

- Higher scores for the portfolio corporate ESG Managed Risk Score allows for a positive adjustment of the overall sustainability risk of a fund.

EU SFDR Article

An indication whether, according to the EU Sustainable Finance Disclosure Regulation (SFDR), the financial product promotes Environmental or Social Characteristics (Article 8), has a Sustainable Investment Objectives (Article 9) or if it does not fit into either category (Not Stated).

- Funds with a low sustainability rating, but commitment to promoting environment or social characteristics, or having a sustainable investment objective can potentially translate into a positive adjustment for the overall sustainability risk of the fund, after an analysis of the pre-contractual SFDR documents by the Sustainability Officer.

Carbon Risk Level Classification

The fund's Historical Carbon Risk Score is assigned to one of five risk categories: Portfolio Carbon Risk Score - Risk Level: 0 - Negligible; 0.01-9.99 – Low; 10-29.99 - Medium; 30-49.99 - High; 50+ - Severe.

- Funds with negligible to low portfolio carbon risk scores allow for a positive adjustment of the overall sustainability risk.

5.3. Step 3: Manage

Sustainability risks will be assessed by the Sustainability Officer in the following way:

Morningstar Sustainability Rating

- High, Above Average, Average, Below Average

A High to Below Average Sustainability Rating allows the Sustainability Officer to identify, conclude and understand that relative environmental, social and governance risks within the funds is relatively low. The Sustainability Officer will provide a unique statement that the sustainability risk is analysed and to be found to not pose a major risk to the company.

- Low

Low sustainability ratings allow the Sustainability Officer to identify, conclude and understand that the relative environmental, social and governance risks are relatively high. The Sustainability Officer will need to have a deeper look into the underlying factors determining the Sustainability Rating, namely: *Portfolio Corporate Sustainability Sating, Portfolio Sovereign Sustainability Rating, Sovereign – Percent of Portfolio Covered with Negligible, Low, Medium, High, or Severe ESG Risk Scores and Corporate – Percent of Portfolio Covered with Negligible, Low, Medium, High or Severe ESG Risk Scores* to get a better picture of a funds' sustainability risks. In addition, the Sustainability Officer will analyse the following data fields:

- *Percentage of AUM With High or Severe Controversies*

If a fund has a score of Percentage of AUM with High Controversies < 10 or a score of Percentage of AUM with Severe Controversies < 5, the sustainability risk will be adjusted positively, and no escalation is necessary. As this indicates that the high or severe controversies within the fund are fairly limited.

- *Low carbon designation*

If a fund has a Low carbon designation, the sustainability risk will be adjusted positively, and no escalation is necessary. As this indicates that the holdings within the fund are generally in line with the transition to a low-carbon economy.

If Percentage of AUM with High controversies >10 and Percentage of AUM with Severe controversies > 5, and no Low Carbon Designation, an escalation report with findings on the overall sustainability risk of a fund will be prepared by the Sustainability Officer and uploaded to the PMS tool. The Sustainability Officer will escalate these reports to the exco of SIM.

- No data

No data for Morningstar Sustainability Rating doesn't allow the Sustainability Officer to identify the financially material ESG risks at the fund level. The Sustainability Officer will first analyse the following data fields to see whether an escalation report is necessary:

- Percentage of AUM with High controversies < 10

Or

- Percentage of AUM with Severe controversies < 5

Or

- Low Carbon Designation

If Percentage of AUM with High controversies > 10 and Percentage of AUM with Severe controversies >5 and the fund doesn't have a Low Carbon Designation or if no data is available for the abovementioned fields, an escalation report with findings on the overall sustainability risk of a fund will be prepared by the Sustainability Officer and uploaded to the PMS tool. The Sustainability Officer will escalate these reports to the Sustainability Committee and Exco of SIM. Escalation reports will be discussed, whenever necessary, in the quarterly sustainability committee.

The sustainability framework as described above, will be discussed in the quarterly sustainability committee.

5.4. Step 4: Monitor

The Sustainability Officer will closely monitor the sustainability risks associated with the funds held in the universe of SIM. The sustainability risks on fund level will be monitored on two levels:

1. The sustainability risks will be monitored in the daily risk & compliance checks by the risk officer. It is checked:

Sustainability Rating = High, Above Average, Average, Below Average = Sustainability risk is OK
Sustainability Rating = Low or No data = Sustainability risk is NOK
But if,
Percentage of AUM with High controversies < 10 = Sustainability risk is OK; Or

Percentage of AUM with Severe controversies < 5 = Sustainability risk is OK; Or
Low Carbon Designation = Sustainability risk is OK
Otherwise an escalation report is needed. The presence of the escalation report in the pms tool will also be checked in the daily risks and compliance check.

In addition, if Sustainability Rating = Low or No data and the Percentage of AUM with severe controversies > 5, an escalation report is always necessary.

ShelteR UCITS and Conventum funds (Own-Managed funds) will be excluded from this analysis as the underlying funds or equities in which these funds invest (the ShelteR IM overall universe) are already part of the analysis. In addition, alternative investment funds will also not be included in the analysis as they are analysed separately.

The sustainability Officer will act whenever necessary to comply with the daily checks.

2. The Sustainability Officer will prepare an excel document containing a unique statement on sustainability risk for all the funds in the ShelteR IM universe.

5.4.1. Portfolio Level

To closely manage sustainability risks at the portfolio level, maximum 5% of any portfolio (UCITs Funds, FICs, FIDs, discretionary mandates) managed by SIM can have a high sustainability risk as analysed by the Sustainability Officer as set out in the sustainability risk framework. Funds with a high sustainability risk, are funds for which an escalation report is present in the PMS tool. Percentages will be calculated as a percentage of the total AUM in the portfolio. In case of a breach, the Sustainability Officer will perform an analysis of the portfolio based on the individual portfolio holdings. Based on the report, the Sustainability Officer will, together with the members of the sustainability committee, decide whether an intervention in the portfolio is necessary. The sustainability risks at portfolio level will also be monitored in the daily risk & compliance checks.

Whenever the sustainability risks at the portfolio level exceed the 5% limit, the holder of the portfolio will be informed about the potential sustainability risks associated with the client's portfolio.

5.4.2. Overall Fund Universe

To effectively manage sustainability risk at the fund level within the overall universe, SIM has established a policy that limits the allocation of high sustainability risk funds to a maximum of 5% of the total percentage of assets under management (AUM) at SIM. This determination is made based on analysis conducted by the Sustainability Officer in accordance with the sustainability risk framework. Funds with a high sustainability risk, are funds for which an escalation report is present in the PMS tool. The sustainability risks at the overall universe level will also be monitored in the daily risk & compliance checks.

5.4.3 New funds in the ShelteR IM Universe

Whenever new funds are added to the universe, the Sustainability Officer must first provide a unique statement of the funds' sustainability risk based on a sustainability risk analysis.

Pre-trade views on the sustainability risk of a fund will be visible in the portfolio checks in the PMS tool.

5.4.4. Data quality

Quality of the sustainability risk data will together with the quality of other sustainability data be checked as a topic in the monthly instrument review meeting.

The excel overview with unique statements on the sustainability risk of individual funds will be checked and updated monthly by the sustainability officer and circulated to the company.

6. Illiquid Assets

The Sustainability Risk analysis of illiquid assets is performed separately from the abovementioned framework and is not included in any thresholds defined above.

The Sustainability Risk of analysis is performed by the Investment Manager and reviewed separately by the RMF. The framework is the following :

- **Identify** : the risk framework for the illiquid solutions managed by SIM determines per type of solution what are considered as sustainability factors by SIM that could potentially influence the financial value of the illiquid investments and therefore pose a risk;
  - For real estate investments ,the analysis includes :
    - the impact on the environment of projects,
    - the materials used to build and
    - the energy efficiency of the construction
    - the analysis of the service providers involved (especially for the construction) and their respect for human rights and labour rights
  - For private equity fund of fund investments, the analysis includes :
    - Analysis provided by the private equity fund
    - Ad hoc assessment by the investment manager and RMF
- **Measure** : the risk framework determines how the risk can be measured;
- **Manage** : the RMF of SIM will escalate (with a report) any issues to the Sustainability Committee and the Exco regarding any contemplated investment where there is a sustainability risk that is considered high. The Sustainability Committee or the Exco will decide to pursue or disallow the investment on an ad hoc basis;
- **Monitor** : Sustainability risk for illiquid assets is monitored on a quarterly basis in the quarterly risk reporting and annually risk reporting to the CSSF