sycomore am

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Principal Adverse Impact Policy

SYCOMORE ASSET MANAGEMENT

Certified B Corporation

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

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

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

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

This document details, on one hand, how PAI are integrated into our ESG analysis methodology, which applies to all our investments, and, on the other hand, how the definition of sustainable investment developed by Sycomore AM takes PAI into account. Starting in 2023, this policy will be complemented by an annual statement reporting our results on each adverse sustainability indicator and explaining the actions taken to tackle adverse impacts of our investments when relevant. While the current policy focuses on the PAI indicators, the annual statement will also cover at list two additional adverse sustainability impact indicators related to environmental and social aspects.

This policy is prepared by our ESG specialists and validated by the Head of Sustainability. It is regularly reviewed in the light of regulatory changes, market practices, internal methodological developments and the results obtained. It is posted on our website.

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

1. Introduction – what are PAI?

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

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

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

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

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

The adverse impacts covered by the indicators listed in the above-mentioned regulation are integrated through the SPICE model criteria, according to their materiality with regards to the company's activities and regional footprint, and the availability of the corresponding data. From January 2025 onwards, this integration will be ensured by taking these indicators into account in the SPICE score assessment, based on data provided by MSCI and corrected or supplemented on a case-by-case basis by our analysts.

Of the 14 adverse impact key indicators applicable to companies (listed in table 1 of the RTS standards), 13 are systematically covered by our SPICE analysis model. Of the 16 optional environmental indicators, 6 are systematically covered, and of the 17 optional social indicators, 9 are systematically or partially covered.

Certain negative impacts are addressed by our exclusion policy: exposure to fossil fuels, controversial weapons, violations or breaches of the United Nations Global Compact and of the OECD Guidelines for Multinational Enterprises.

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

For more information on our analysis model, please refer to our ESG integration policy.

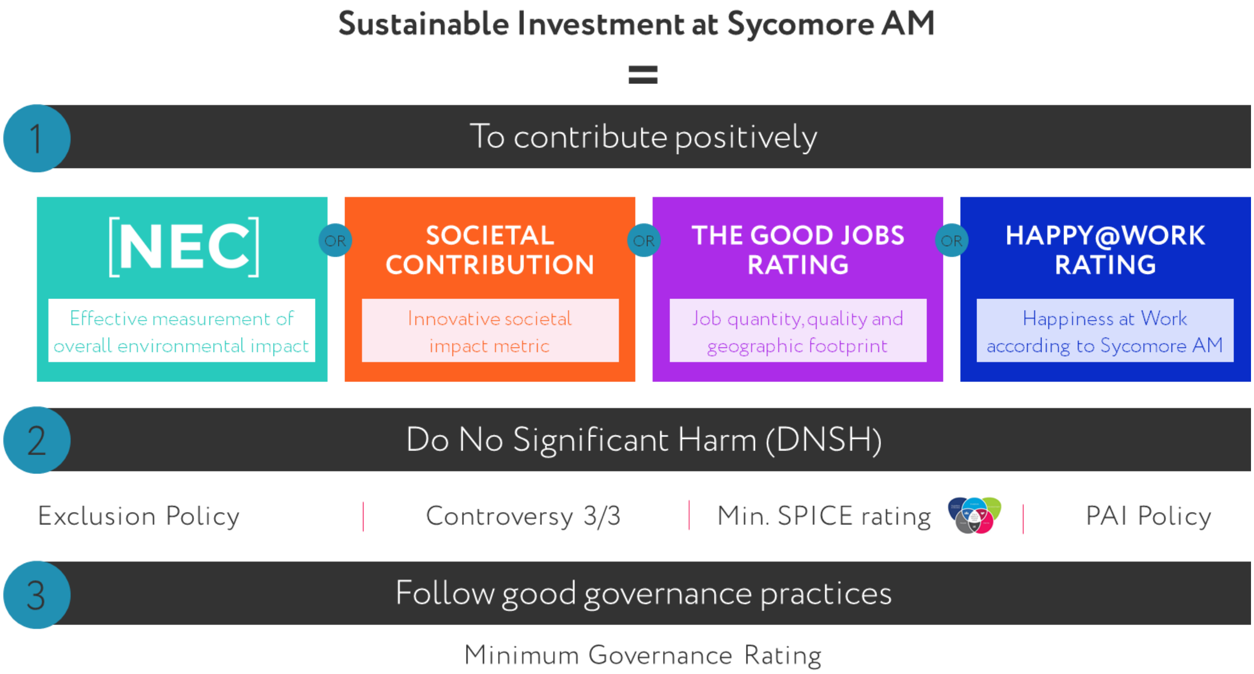
For more information on exclusions, please refer to our exclusion policy.

Integration of PAI indicators in our sustainable investment definition

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

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

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



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

PAI indicators consideration through our responsible investment approach

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

- Natural Capital Strategy: our Natural Capital Strategy explains our approach, as an investor, to contribute to the environmental challenges, in compliance with external frameworks and in particular the Taskforce on Nature-related Financial Disclosures (TNFD) recommendations. Targets validated by the Science-Based Targets initiative have been defined to align our strategy with a 1.5°C scenario. These targets are a key element to manage PAI indicators #1 to #6 related to greenhouse gas emissions.
- Exclusion policy: our exclusion policy targets activities that appear to be incompatible with our commitment to responsible investing due to their negative effects on sustainability factors. Four exclusion criteria are related to PAI indicators:
    - Violations of the UN Global Compact and of the OECD Guidelines for multinational companies (PAI #10);
    - Exposure to companies operating within the fossil fuel industry as well as carbon intensive utilities (PAI #3&4);
    - Exposure to controversial weapons (PAI #14);
    - Exposure to chemical pesticides production (negative impact on biodiversity, PAI #7).
- Voting policy: our voting policy targets specifically the PAI indicator related to gender diversity at board level (PAI #13). We encourage companies to align with a minimum threshold of 40% of the board for the under-represented gender. Below this threshold, we vote against nomination of new board members of the over-represented gender and/or the re-election of members and in particular of the chair of the nomination committee.
- Stewardship policy: our stewardship policy specifically targets our residual exposure to fossil fuels (PAI #4), which is very low considering our exclusion policy on the sector. Our investments in companies with exposure to fossil fuels are subjected to engagement actions. Other PAI indicators may also be tackled through our stewardship policy and in particular on the themes of human rights (PAI #10&11), diversity and gender pay gap (PAI #12&13) as well as biodiversity (PAI #7).

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

3.1 Greenhouse gas (GHG) emissions

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

Our SPICE analysis model incorporates, within pillar E, a score based on the carbon intensity of companies relative to their sector..

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

3.2 Biodiversity

Indicator #7 is related to activities negatively affecting biodiversity-sensitive areas, complemented by indicator #14 of Table 2 related to natural species and protected areas: these two indicators send a signal that activities in biodiversity-sensitive areas without appropriate mitigation measures might occur. Companies for which this is confirmed are deemed to significantly harm the objective of protection and restoration of biodiversity and ecosystems.

3.3 This indicator is integrated into our SPICE analysis model within pillar E via an indicator of exposure to areas sensitive in terms of biodiversity and fragile ecosystems. **Water**

Indicator #8 is related to emissions to water. In the absence of reliable data on this indicator, integration is achieved through:

- Controversy reviews: a severe impact not yet fully addressed by the company is deemed to significantly harm the objective of sustainable use and protection of water and marine resources;
- ESG analysis: on a case-by-case basis and depending on the materiality of water pollution issues, our analysts supplement the analysis of pillar E with an assessment of water discharge management.

3.4 Waste

Indicator #9 is related to hazardous waste and radioactive waste ratio.

Our SPICE analysis model incorporates, within pillar E, a score based on the intensity of hazardous waste, expressed in tonnes of hazardous waste produced per million euro invested.

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

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

Indicator #11 is related to the lack of processes and compliance mechanism to monitor compliance to these international standards, as a signal that further due diligence is necessary to conclude on the likeliness of potential violations. A dedicated dataset enables to identify companies with a lack of processes and compliance mechanism to monitor compliance to these international standards. Moreover, our SPICE analysis model looks at the way companies manage their risks and opportunities towards their stakeholders.

3.6 Gender equality

Indicator #12 is related to unadjusted gender pay gap.

This indicator is taken into account in the People pillar score of our SPICE model.

Indicator #13 is related to Board gender diversity. The indicator for the proportion of women on boards of directors is taken into account in the Investor pillar score of our SPICE model.

3.7 Controversial weapons

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

3.8 Applicable to sovereigns and supranationals

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

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

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

Data used to assess PAI indicators on the one hand and to identify exclusions on the other hand are sourced primarily from MSCI which bases its dataset on the collection of data published by companies and, in some cases, provides estimates. This data may be amended or supplemented by our analysts based on information from companies reports, third parties reports or dialogues with companies.

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

The main limitations are as follows:

- Completeness: the coverage rate of our analysis universe by the indicators in our SPICE model varies between 10% and 100% depending on the indicators.. Indeed, some data are not always published by companies. The implementation of the Corporate Sustainability Reporting Directive in the coming years will be a key element to increase data availability. Engagement on disclosure is also an important focus for Sycomore AM to tackle this issue.
- Heterogeneous definition and methodology: all PAI indicators are not fully defined by the regulation. Consequently, discrepancies in the definition and methodology may occur from a company to another. A quality check on the dataset aims at identifying outlier values that may be checked or not considered if there is no possibility to correct the data.
- Accuracy: for some PAI indicators accurate dataset are still not available. Therefore, qualitative proxies, mainly based on our SPICE fundamental analysis model are used.